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Independent Auditor's Report

To the Shareholders of Opportunity banka a.d. Novi Sad

Opinion

We have audited the accompanying financial statements of Opportunity banka a.d. Novi Sad (the "Bank"), which comprise:

- the balance sheet as at 31 December 2019;

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

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

and

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

(the "financial statements").

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibility for the audit of the financial statements

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

As part of an audit in accordance with applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report on the audit of the financial statements. However, future events or conditions may cause the Bank to cease to continue as a going concern;

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

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

KPMG d.o.o. Beograd

Nikola Đenić
Certified Auditor

Belgrade, 14 April 2020

OPPORTUNITY
Banka a.d. Novi Sad

Financial Statements
for the Year 2019

BALANCE SHEET as at 31 December 2019

In RSD thousand	Note	31 December 2019	31 December 2018
ASSETS			
Cash and assets held with the central bank	40(H), 19	2,691,952	2,496,936
Loans and receivables from banks and other financial organisations	40(J), 21	1,051,238	598,381
Loans and receivables from clients	40(J), 22	13,730,235	12,439,538
Intangible assets	40(L), 24	175,426	128,190
Property, plant and equipment	40(K), 23	514,599	376,482
Deferred tax assets	17B	15,597	-
Other assets	25	88,324	107,121
TOTAL ASSETS		**18,267,371**	**16,146,648**
CAPITAL AND LIABILITIES			
Liabilities			
Deposits and other liabilities to banks, other financial organisations and central bank	40(N), 26	3,365,323	3,990,168
Deposits and other financial liabilities to clients	40(N), 27	9,667,344	8,026,858
Subordinated liabilities	40(N), 28	1,183,736	711,987
Provisions	40(O), 29	104,201	72,113
Current tax liabilities		2,139	11,186
Deferred tax liabilities	17(B)	-	1,012
Other liabilities	40(P), 30	340,424	205,598
Total liabilities		**14,663,167**	**13,018,922**
Capital			
Share capital and share premium	31	1,857,798	1,857,798
Retained earnings	31	459,031	562,276
Reserves	31	1,287,375	707,652
Total capital		**3,604,204**	**3,127,726**
TOTAL CAPITAL AND LIABILITIES		**18,267,371**	**16,146,648**

Novi Sad, 31 March 2020

For and behalf of the management of
Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board

INCOME STATEMENT in the period from 1 January to 31 December 2019

In RSD thousand	Note	2019	2018
Interest income	40(C), 9	2,751,894	2,600,622
Interest expenses	40(C), 9	(531,600)	(554,633)
Net interest income		2,220,294	2,045,989
Income from fees and commissions	40(D), 10	48,104	49,405
Expenses on fees and commissions	40(D), 10	(29,986)	(28,012)
Net income from fees and commissions		18,118	21,393
Net exchange rate gains and gains from agreed currency clause	40(B), 11	294	2,984
Net expenses on impairment of financial assets not measured at fair value through income statement	40(G), 13	(19,730)	(96,660)
Other operating income	40(B,G,K), 12	212	1,811
Total net operating income		**2,219,188**	**1,975,517**
Salaries, salary compensations and other personal expenses	14	(756,314)	(639,293)
Depreciation costs	40(L), 40(K), 23, 24	(83,961)	(53,516)
Other income	15	26,069	11,717
Other expenses	16	(865,378)	(783,579)
Profit before tax		**539,604**	**510,846**
Profit/(Loss) from deferred tax assets and liabilities	40(F,ii), 17	7,246	1,283
Profit tax	40(F,i), 17	(87,819)	(85,677)
PROFIT AFTER TAX		**459,031**	**426,452**

Novi Sad, 31 March 2020

For and behalf of the management of
Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board

STATEMENT OF OTHER COMPREHENSIVE INCOME
in the period from 1 January to 31 December 2019

In RSD thousand	Note	2019	2018
Profit for the period		**459,031**	**426,452**
Components of other comprehensive income which cannot be reclassified to profit or loss:			
(Decrease)/increase in revaluation reserves based on property	31	17,446	-
Components of other comprehensive income that may be reclassified to profit or loss:			
(Negative)/positive effects of change in value of debt instruments measured at fair value through other comprehensive income	31	-	(68)
Total other positive/(negative) comprehensive income for the period	**31**	**17,446**	**(68)**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		**476,477**	**426,384**

Novi Sad, 31 March 2020

For and behalf of the management of
Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board

STATEMENT OF CHANGES IN EQUITY in the period from 1 January to 31 December 2019

In RSD thousand	Note	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Fair value and revaluation reserves	Retained earnings	Total
Opening balance as at 1 January, 2018		**1,775,940**	**81,858**	**266,484**	**88,150**	**520,786**	**2,733,218**
Effects of first time application of new IFRSs - decrease	31	-	-	-	-	(31,875)	(31,875)
Restated opening balance as at 1 January 2018	31	**1,775,940**	**81,858**	**266,484**	**88,150**	**520,786**	**2,701,343**
Negative effects of change in fair value reserves	31	-	-	-	(69)	-	(69)
Profit for the current year	31	-	-	-	-	426,452	426,452
Distribution of profit	31	-	-	353,087	-	(353,087)	-
Balance as at 31 December, 2018		**1,775,940**	**81,858**	**619,571**	**88,081**	**562,276**	**3,127,726**
Opening balance as at 1 January, 2019		**1,775,940**	**81,858**	**619,571**	**88,081**	**562,276**	**3,127,726**
Profit for the current year	31	-	-	-	-	459,031	459,031
Increase in revaluation reserves based on property		-	-	-	17,446	-	17,446
Distribution of profit	31	-	-	459,031	-	(459,031)	-
Balance as at 31 December, 2019		**1,775,940**	**81,858**	**1,078,602**	**105,527**	**562,276**	**3,604,204**

Novi Sad, 31 March 2020

For and behalf of the management of
Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board

CASH FLOW STATEMENT in the period from 1 January to 31 December 2019

In RSD thousand	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**2,811,867**	**2,734,897**
Interest	2,706,671	2,615,983
Fees	46,146	40,054
Other operating income	59,050	78,860
Cash outflow from operating activities	**(2,149,761)**	**(1,993,988)**
Interest	(477,739)	(470,064)
Fees	(20,603)	(30,755)
Gross salaries, salary compensations and other personal expenses	(742,399)	(636,731)
Taxes, contributions and other duties charged to income	(224,749)	(218,094)
Other operating expenses	(684,271)	(638,344)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**662,106**	**740,909**
Net inflow in financial assets and financial liabilities	**1,539,699**	**1,808,109**
Net inflow in receivables under securities and other financial assets not intended for investment	-	300,614
Net inflow in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	1,539,699	1,507,495
Net outflow in financial assets and decrease in financial liabilities	**(1,606,121)**	**(2,082,680)**
Net outflow in loans and receivables from banks, other financial organisations, central bank and clients	(1,606,121)	(2,082,680)
Net cash inflow / (outflow) from operating activities before profit tax	**595,684**	**466,338**
Profit tax paid	(103,076)	(80,452)
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	**492,608**	**385,886**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**-**	**364**
Sale of intangible assets, property, plant and equipment	-	364
Cash outflow from investing activities	**(101,856)**	**(126,922)**
Purchase of intangible assets, property, plant and equipment	(101,856)	(126,922)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(101,856)**	**(126,558)**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**470,371**	**1,565,046**
Subordinated liabilities	470,371	-
Loans taken	-	1,565,046
Cash outflow from financing activities	**(596,831)**	**(1,520,487)**
Subordinated liabilities	-	(473,440)
Loans taken	(571,110)	(1,047,047)
Other outflows from financing activities	(25,721)	-
NET CASH INFLOW FROM FINANCING ACTIVITIES	**(126,460)**	**44,559**
TOTAL CASH INFLOW	**4,821,937**	**6,108,416**
TOTAL CASH OUTFLOW	**(4,557,645)**	**(5,804,529)**
NET CASH INCREASE / (DECREASE)	**264,292**	**303,887**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**839,215**	**534,859**
Exchange rate gains / (losses)	(2,555)	469
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 20)	**1,100,952**	**839,215**

Novi Sad, 31 March 2020

For and behalf of the management of
Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board

1 ACTIVITY

Opportunity bank a.d. Novi Sad (hereinafter: The Bank) was founded on 27 May 2002 as Opportunity International Stock Savings Bank a.d. Novi Sad, which commenced its operations based on the License provided by the National Bank of Yugoslavia dated 28 June 2002 and the Court registration dated 2 July 2002.

In accordance with the Law on Banks (Official Gazette RS, No. 107/2005, No. 91/2010 and 14/2015) and the Foundation Agreement signed on 4 December 2006 by Opportunity Transformation Investments Inc., European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and Oikocredit Ecumenical Development Cooperative Society U.A., the Opportunity International Stock Savings Bank a.d. Novi Sad was transformed into a bank. The change in name of the Bank to Opportunity bank a.d. Novi Sad, as well as the change in registered activities, has been registered with the Business Registers Agency under registration number BD 24798/2007 as at 20 April 2007. The Bank formally started to operate as a bank on 7 February 2007 when the operating license was issued by the National Bank of Serbia.

In accordance with the Law on Banks, the Foundation Agreement and Statute, the Bank is registered to perform the following activities:

- credit operations (granting and taking loans in the country and abroad),
- deposit operations (receiving and depositing deposits),
- payment transactions,
- foreign exchange, foreign exchange currency and exchange transactions,
- guarantees (issuing guarantees and other forms of guarantees),
- other operations for which it is authorized by law.

As at 31 December 2019, the Bank has its Head Office in Novi Sad, branches in Novi Sad, Novi Beograd, Belgrade, Nis, Kragujevac, Subotica, Cacak, Jagodina and loan offices in Pozarevac, Pancevo, Sabac, Valjevo, Loznica, Obrenovac, Stara Pazova, Zrenjanin, Sremska Mitrovica, Backa Palanka, Sombor, Senta, Kraljevo, Uzice, Prijepolje, Krusevac, Topola, Ivanjica, Leskovac, Pirot, Vranje and Zajecar.

As at 31 December 2019 the Bank had 425 employees (31 December 2018: 367).

The identification number of the Bank is 08761132, and tax identification number is 101643574.

2. BASIS FOR PREPARATION

The financial statements have been prepared in accordance with the principle of business continuity, which implies that the Bank will continue to operate in the foreseeable future.

Considering the forms and magnitudes of disruptions that can be expected in the banking sector and in the markets where the Bank's clients are active (Note 37), the Bank's management believes that the level of liquidity buffers and existing capital adequacy provide the Bank with continued operations during and after the state of emergency.

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

This is the first set of annual financial statements of the Bank in which IFRS 16 *Leases* is applied. Significant changes in accounting policies are presented in Note 5.

3. FUNCTIONAL AND PRESENTATION CURRENCY

Financial statements are disclosed in Serbian Dinars (RSD) which is the Bank`s functional and presentation currency. All data disclosed in Serbian Dinars has been rounded to the nearest thousands, except when otherwise indicated. All transactions executed in currencies, that are not the functional currency, are treated as transactions in foreign currencies.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with IFRS requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions on the basis of which they are performed are considered continuously.

Estimates and underlying assumptions are reviewed on an ongoing basis, which implies that the Bank will continue its business in the foreseeable future. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

A. Basis of measurement

Information on estimates in the application of accounting policies that have the most significant effects on the amounts disclosed in the financial statements are contained in the following notes relating only to 2019:

- Note 42. G and note 19. A: classification of financial assets: an estimate of the business model by which assets are held and an assessment of whether the terms of the contract relating to financial assets are in accordance with the principle "solely payments of principal and interest“ (SPPI);
- Note 6. A: Establishing the criteria for determining whether the credit risk of a financial asset has increased significantly in relation to initial recognition, the establishment of a methodology for determining forward-looking information in assessing expected loan losses and the selection and validation of the models used to measure the expected losses on loans.

B. Uncertainty when evaluating

Information on assumptions and uncertainty estimates that have a significant level of risk of materially adjusting in 2018 and 2019 is presented in the following sections of the text:

- Note 6.A: impairment of financial assets: determination of input information for the model of measuring the expected credit loss including forward looking information;
- Note 7.D. determining the fair value of instruments by minimizing the use of unobservable inputs;
- Note 18. recognition of deferred tax assets (availability of future taxable profit);
- Note 30: Provisions: Key assumptions about the probability and size of the outflow of assets;
- Note 42.G: Impairment of financial instruments: key assumptions used in estimating cash flows;
- Note 42. K and L: Estimated lifetime of property, plant and equipment and intangible assets.

5. OVERVIEW OF CHANGES OF BASIC ACCOUNTING POLICIES

Review of standards, changes, amendments and interpretations of standards first applied for annual periods beginning after 1 January 2019:

IFRS 16 *Leases* has superseded the requirements of IAS 17 Leases and the relevant guidance of that standard, effective for annual periods beginning on or after 1 January 2019.

The effects of the first application of IFRS 16 are disclosed under this Note Part B

The application of the following standards, interpretations of standards (IFRIC) and amendments to existing standards, which are mandatory for the first time for the financial year beginning January 1, 2019, did not result in a significant change in the Bank's accounting policies or a material impact on the accompanying financial statements of the Bank:

- IFRIC 23 *Uncertainty Related to Income Tax Treatment* (effective for annual periods beginning on or after 1 January 2019). This interpretation is applied in determining taxable profit (loss), tax base, unused tax losses, unused tax credits and tax rates, when there are uncertainties regarding the treatment of income taxes in accordance with IAS 12.
- Modifications to IFRS 9 *Financial Instruments - Advance Payment Characteristics* (effective for annual periods beginning on or after 1 January 2019). Financial assets with an advance payment feature can be measured at amortized cost or at fair value through equity if they meet other relevant IFRS 9 requirements.
- Modifications to IAS 28 *Investments in Associates and Joint Ventures - Long-term Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2019).
- IFRS Annual Improvements, *Cycle 2015-2017* - IFRS 3, IFRS 11, IAS 12 and IAS 23, as published by the International Accounting Standards Board in December 2017 (effective for annual periods beginning on or after 1 January 2019.
- *Modifications, Reductions or Settlements* (Amendments to IAS 19) - Amendments to the standards define that if there is an amendment, reduction or reconciliation of a plan, then the cost of current servicing and net interest for the post-revaluation period will be determined using the assumptions used in the revaluation.

A. Comparative data

The accounting policies and estimates relating to the recognition and measurement of assets and liabilities used in the preparation of these financial statements are consistent with the accounting policies and estimates applied in the preparation of the Bank's 2018 annual financial statements, except for changes in accounting policies arising from the application of IFRS 16 Leases, as presented in IFRS 16 Part B of this Note. Consequently, the comparative figures presented for 2018 do not reflect the requirements of IFRS 16 and are not comparable to the data presented for 2019.

B. IFRS 16 *Leases*

IFRS 16 defines how to recognize, evaluate, present and disclose information about assets with a right of use.

The Bank has first implemented IFRS 16 *Leases* since 1 January 2019. The standard governs the manner in which the right to use assets is recognized, valued, presented and disclosed, and replaces (and repeals) the current IAS 17 Standard - Leasing and Related Interpretations for IAS 17:

1. IFRIC 4 - Determining whether an Arrangement contains a Lease,
2. SIC 15 - Operating Leases – Incentives and
3. SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Bank has applied IFRS 16 using a modified retrospective approach, in which IFRS 16 is applied retrospectively with the option under which the right to use assets is equal to the value of the lease liability, and therefore there are no effects of first applying the standard within retained earnings as at 1 January 2019, with comparative figures also not being restated. Accordingly, the comparative data disclosed for 2018 remain unchanged, i.e. are disclosed in accordance with IAS 17 and related interpretations

The main effects of the first application of these standards are set out in this note in section iii Impact on the financial statements.

Details of changes in accounting policies are presented below.

i. Definition of leasing

Leasing in terms of standards means contracts under which the lessor transfers to the Bank the right to use the assets leased by the Bank within the agreed time limit in exchange for a fee.

The fee includes payments related to the right to use the assets for the duration of the lease, including an estimate of the cost of bringing the leased asset back to original status, potential penalties for termination of the lease, the residual value of the leased item if defined by the lease agreement, payments that do not constitute a lease if the lessee has chosen to combine them with the lease.

ii. Bank as a lessee

The bank leases branches and office facilities and IT equipment. In accordance with IAS 17, the Bank initially classified all leases as operating leases, based on an assessment of whether the lease had substantially transferred the risks and rewards of ownership. In accordance with IFRS 16, the Bank recognizes the right to use leasing assets and liabilities to lease branches and office buildings and presents them through the balance sheet.

IAS 16 applies to all contracts that meet the definition of leasing except:

— Intellectual property license agreements governed by IFRS 15 *Revenue from Contracts with Customers*, and
— contracts containing copyright elements governed by IFRS 38 *Intangible Assets*.

IFRS 16 also does not apply to:

— short-term leases with a contractual maturity of up to 12 months or less, which do not include a repurchase option, and
— low value leases of less than EUR 4,150.

Initial recognition

At the beginning of the lease period (from commencement date), the Bank recognizes an asset with a right of use in the balance sheet measured at the present value of all lease payments not made on that date. These payments are discounted using an incremental lending rate. The lease liability is recognized in the same amount.

Commencement date is the date on which the lessor gives the asset in question to the Bank for use. The lease term is the irrevocable period during which the lessee has the right to use the assets in question, together with the periods covered by the eventual option to extend the lease and the periods covered by the option to terminate the lease.

The initial amount at which the asset and liability are valued is calculated as follows:

— cost in the amount of the initial measurement of the lease liability;
— all possible payments made by the lessee on or before the lease commencement date;
— any direct costs of the lease that would not have occurred had it not been for the lease (e.g. commissions, costs of bringing the asset to use);
— Estimated cost of dismantling, i.e. bringing the leasehold item to its initial condition; and
— Reduced by any discounts received from the lessor.

An incremental borrowing rate is an interest rate that equates the present value of the lease payment with the sum of the fair value of the assets and all the Bank's initial direct costs. Given that the interest rate is not explicitly stated in the lease agreement, the Bank applies the rate that it assumes it would pay when borrowing the funds for a similar term and for similar purposes.

For leasing, the Bank determines the incremental borrowing rate once a year in November each year on the basis of the following elements:

— rates for subordinated loan offered to the Bank by the European Investment Bank for a period of 10 years, the subject of which is investment in the development of the organization and expansion of the Bank's capacities;
— yield curves for the euro currency;

— that the period is comparable to the period of the lease, and
— that the rate includes current market conditions.

The yield curve required for discounting to present value is calculated by calculating the Bank's idiosyncratic risk as the difference between the last valid Eurobond subordinated loan offer from a banking institution based in the European Union and the AAA rating zero-swap curve for appropriate maturity. That risk premium was added to all the zero-swap values. Due to the fact that this curve contains a credit risk assessment of the Bank by a banking institution based in the European Union and an AAA rating, it is considered that it best reflects the Bank's risk profile.

For vehicles classified as eligible for use under IFRS 16, the Bank determines the discount rate based on the financial leasing calculator of the lessor.

The difference between the nominal value of the liability and its amortized cost determined by discounting at the balance sheet date is recorded as interest expense.

For the leased asset, impairment charges are calculated (depreciation) whereby the depreciation period is determined to be shorter than the following two:

— the period until the end of the leasing period, or
— the period until the useful life of the asset expires.

Subsequent measurement

The Bank subsequently measures lease assets in accordance with the asset management right to use by discounting the purchase value with a linear depreciation calculation.

Subsequent measurement of the carrying amount of leasing liabilities is made when:

— there is a change in the lease terms used to create a significant event or a change in circumstances controlled by the Bank;
— changes in valuation regarding the certainty of using the option to purchase the leased asset after the expiry of the leasing contract;
— changes in the expected amount of the guaranteed residual value;
— changes in the minimum future lease payments caused by a change in the index or rate used for variable lease payments.

The Bank presents the assets subject to leasing in its Balance Sheet in Property, plant and equipment (Note 23). Leasing liabilities are recognized under Other liabilities (Note 30).

In the Income Statement, the Bank presents the cost of depreciation of the leased assets together with the cost of depreciation of other fixed assets and intangible assets. Interest expense related to leased assets is shown separately within financial expenses.

In the statement of cash flows, the Bank discloses liabilities for equity within financial activities, and expenses for repayment of interest as well as other expenses for interest in the framework of operating activities (outflows based on interest).

Expenditures for leases shorter than 12 months and for leases that are outside the scope of IFRS 16 are recognized in the Statement of Cash Flows from Operating Activities.

iii. Impact on financial statements

According to IFRS 16, the Bank recognized the additional rights to use and the additional lease obligations through the balance sheet as at 1 January 2019 without effect on the income statement.

Summary of the impact of the implementation of the new standard on January 1, 2019 in thousands of dinars:

Assets with right of use are stated in the balance sheet within fixed assets	**109,289**
Deferred tax assets	-
Leasing liabilities	109,289
Interest expense on leasing liabilities	-

Contingent liabilities for operating leases as at December 31, 2018 presented in the financial statements in accordance with IAS 17	**125,026**
Discounted using the incremental borrowing rate as of January 1, 2019	112,960
Low value lease exemptions	(380)
Maturity lease exemptions shorter than 12 months	(3,291)
Lease liabilities recognised as at 1 January 2019	**109,289**

At the moment of measuring lease liabilities, the Bank applies an incremental borrowing rate. The average weighted interest rate used for discounting leasing liabilities is 4.83%

6. OVERVIEW OF FINANCIAL RISKS

This Note contains an overview of the Bank's exposure to financial risks and how capital is managed. The information related to the risk management framework applied by the Bank is given in Note no. 42.

A. Credit risk

The definition of credit risk and a detailed description of the Bank's credit risk management framework is given in Note no. 39.

i. Credit portfolio quality analysis

The following tables set out information about the quality of financial assets that are measured at amortized cost. The amounts shown are gross carrying amounts unless it is otherwise explicitly stated. Off-balance sheet items under the guarantees shown in the tables represent the amounts taken or guaranteed for which payments may arise. The explanations of the terms Stage 1, Stage 2 and Stage 3 are presented in this note part III. The Bank manages the exposure to credit risk using the following control measures: regular assessment of the application of internally defined credit criteria and the diversification of sectoral risk in order to avoid concentration on any type of business. The Bank takes collateral in the form of a mortgage on immovables, deposits and inventories with the aim of reducing the exposure to credit risk.

In thousands of RSD	12-month PD	Stage 1	Stage 2	Stage 3	Total 2019
Loans and receivables from clients					
Group 0-5 day	0.86-1.36	12,107,044	1,039,125	16,239	13,162,408
Group 6-90 days	12,17-18,94	312,280	302,463	33,627	648,370
Group >90 days	100,00	-	-	189,336	189,336
Gross carrying amount		12,419,324	1,341,588	239,202	14,000,114
Allowance for impairment		(80,625)	(35,869)	(153,385)	(269,879)
Net carrying amount		**12,338,699**	**1,305,719**	**85,817**	**13,730,235**
Loans and receivables from banks and other financial organisations					
Group 0-5 day	0.51-1.36	828,918	242,996	-	1,071,914
Group 6-90 days		-	-	-	-
Group >90 days	100.00	-	-	585	585
Gross carrying amount		828,918	242,996	585	1,072,499
Allowance for impairment		(1,219)	(19,683)	(359)	(21,261)
Net carrying amount		**827,699**	**223,313**	**226**	**1,051,238**
Other assets					
Group 0-5 day	0.86-1.36	63,118	1,025	135	64,278
Group 6-90 days	12.17-18.94	84	146	4	234
Group >90 days	100.00	-	-	18,501	18,501
Gross carrying amount		63,202	1,171	18,640	83,013
Allowance for impairment		(462)	(22)	(17,164)	(17,648)
Net carrying amount		**62,740**	**1,149**	**1,476**	**65,365**
Off-balance sheet items					
Group 0-5 day	0.86-1.36	13,790	1,943	-	15,733
Group 6-90 days	12.17-18.94	-	-	-	-
Group >90 days	0.86-1.36	-	-	-	-
Gross carrying amount		13,790	1,943	-	15,733
Allowance for impairment		(24)	(1)	-	(25)
Net carrying amount		**13,766**	**1,942**	**-**	**15,708**
Total gross carrying amount		**13,325,234**	**1,587,698**	**258,427**	**15,171,359**
Total allowance for impairment		(82,330)	(55,575)	(170,908)	(308,813)
Total net carrying amount		**13,242,904**	**1,532,123**	**87,519**	**14,862,546**

On 31 December 2019 the Bank does not have POCI assets.

In thousands of RSD	12-month PD	Stage 1	Stage 2	Stage 3	Total 2018
Loans and receivables from clients					
Group 0-1 day	0.78-1.71	10,669,052	1,009,106	66,510	11,744,668
Group 2-90 days	10.38-16.05	407,828	360,795	32,102	800,725
Group >90 days	100.00	-	-	160,270	160,270
Gross carrying amount		11,076,880	1,369,901	258,882	12,705,663
Allowance for impairment		(75,865)	(37,029)	(153,231)	(266,125)
Net carrying amount		**11,001,015**	**1,332,872**	**105,651**	**12,439,538**
Loans and receivables from banks and other financial organisations					
Group 0-1 day	0,52-1,71	383,876	239,369	-	623,245
Group 2-90 days	16,05	-	801	-	801
Group >90 days	100,00	-	-	-	-
Gross carrying amount		383,876	240,170	**-**	624,046
Allowance for impairment		(702)	(24,963)	**-**	(25,665)
Net carrying amount		**383,174**	**215,207**	**-**	**598,381**
Other assets					
Group 0-1 day	0.78-1.71	70,184	12,050	81	82,314
Group 2-90 days	10.38-16.05	66	571	1	639
Group >90 days	100.00	-	-	17,311	17,311
Gross carrying amount		70,250	12,621	17,393	100,264
Allowance for impairment		(601)	(137)	(16,551)	(17,289)
Net carrying amount		**69,649**	**12,484**	**842**	**82,975**
Off-balance sheet items					
Group 0-1 day	0.78-1.71	20,357	1,308	224	21,889
Group 2-90 days	10.38-16.05	-	-	-	-
Group >90 days	100.00	-	-	-	-
Gross carrying amount		20,357	1,308	224	21,889
Allowance for impairment		(30)	(5)	(77)	(112)
Net carrying amount		**20,327**	**1,303**	**147**	**21,777**
Total gross carrying amount		**11,551,363**	**1,624,000**	**276,499**	**13,451,862**
Total allowance for impairment		(77,198)	(62,134)	(169,859)	(309,191)
Total net carrying amount		**11,474,165**	**1,561,866**	**106,640**	**13,142,671**

On 31 December 2018 the Bank does not have POCI assets.

The table below shows the status of credit delays and accounts receivable with a 30-day cut-off point, which is an indicator of increasing credit risk:

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2019
Loans and receivables from clients				
Without days past due	12,101,141	1,023,553	16,239	13,140,933
Overdue < 30 days	318,183	215,628	24,057	557,868
Overdue > 30 days	-	102,407	198,906	301,313
Gross carrying amount	12,419,324	1,341,588	239,202	14,000,114
Allowance for impairment	(80,625)	(35,869)	(153,385)	(269,879)
Net carrying amount	**12,338,699**	**1,305,719**	**85,817**	**13,730,235**
Loans and receivables from banks and other financial organisations				
Without days past due	828,918	242,996	-	1,071,914
Overdue < 30 days	-	-	-	-
Overdue > 30 days	-	-	585	585
Gross carrying amount	828,918	242,996	585	1,072,499
Allowance for impairment	(1,219)	(19,683)	(359)	(21,261)
Net carrying amount	**827,699**	**223,313**	**226**	**1,051,238**
Other assets				
Without days past due	63,089	1,025	135	64,249
Overdue < 30 days	113	16	4	133
Overdue > 30 days	-	130	18,501	18,631
Gross carrying amount	63,202	1,171	18,640	83,013
Allowance for impairment	(462)	(22)	(17,164)	(17,648)
Net carrying amount	**62,740**	**1,149**	**1,476**	**65,365**
Off-balance sheet items				
Without days past due	13,790	1,943	-	15,733
Overdue < 30 days	-	-	-	-
Overdue > 30 days	-	-	-	-
Gross carrying amount	13,790	1,943	-	15,733
Allowance for impairment	(24)	(1)	-	(25)
Net carrying amount	**13,766**	**1,942**	**-**	**15,708**
Total gross carrying amount	**13,325,234**	**1,587,698**	**258,427**	**15,171,359**
Total allowance for impairment	(82,330)	(55,575)	(170,908)	(308,813)
Total net carrying amount	**13,242,904**	**1,532,123**	**87,519**	**14,862.546**

As at 31 December 2019 the Bank has no loans and receivables that are recorded at fair value through profit or loss, nor debt instruments classified as FVOCI.

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2018
Loans and receivables from clients				
Without days past due	10,669,020	1,007,515	66,510	11,743,045
Overdue < 30 days	407,860	276,931	23,635	708,426
Overdue > 30 days	-	85,455	168,737	254,192
Gross carrying amount	11,076,880	1,369,901	258,882	12,705,663
Allowance for impairment	(75,865)	(37,029)	(153,231)	(266,125)
Net carrying amount	**11,001,015**	**1,332,872**	**105,651**	**12,439,538**
Loans and receivables from banks and other financial organisations				
Without days past due	383,876	239,369	-	623,245
Overdue < 30 days	-	801	-	801
Overdue > 30 days	-	-	-	-
Gross carrying amount	383,876	240,170	-	624,046
Allowance for impairment	(702)	(24,963)	-	(25,665)
Net carrying amount	**383,174**	**215,207**	**-**	**598,381**
Other assets				
Without days past due	70,184	12,050	81	82,314
Overdue < 30 days	66	20	1	88
Overdue > 30 days	-	551	17,311	17,862
Gross carrying amount	70,250	12,621	17,393	100,264
Allowance for impairment	(601)	(137)	(16,551)	(17,289)
Net carrying amount	**69,649**	**12,484**	**842**	**82,975**
Off-balance sheet items				
Without days past due	20,357	1,308	224	21,889
Overdue < 30 days	-	-	-	-
Overdue > 30 days	-	-	-	-
Gross carrying amount	20,357	1,308	224	21,889
Allowance for impairment	(30)	(5)	(77)	(112)
Net carrying amount	**20,327**	**1,303**	**147**	**21,777**
Total gross carrying amount	**11,551,363**	**1,624,000**	**276,499**	**13,451,862**
Total allowance for impairment	(77,198)	(62,134)	(169,859)	(309,191)
Total net carrying amount	**11,474,165**	**1,561,866**	**106,640**	**13,142,671**

As at 31 December 2018 the Bank has no loans and receivables that are recorded at fair value through profit or loss, nor debt instruments classified as FVOCI.

ii. Loan Collaterals

For certain exposures, the Bank collects collateral and other types of security. The sale of collateral is undertaken when the client does not settle obligations toward the Bank.

The Bank has collaterals based on loans and receivables from clients. Types of a collateral accepted by the Bank are as follows:

- one or more individual co-guarantors who signed a bill of exchange and submitted the salary or pension withholding agreement,
- blank bills of exchange issued by an entrepreneur or legal entity - loan beneficiary,
- pledge on movable property,
- mortgage on immovable property,
- cash deposit without special purpose,
- insurance policy in favour of the Bank.

Fair value assessments are based on the value of the collateral instrument estimated at the time of borrowing. After assessment at the time of borrowing, the authorized appraiser appraises the real estate at least once in three years and more often for other collaterals, depending on the volatility of their values. For non-performing loans (financial assets at Stage 3), the appraisal of collaterals is performed once a year.

The Bank does not take collateral on the basis of loans and receivables from banks, except for securities held as part of reverse repo transactions and securities that serve as collateral for receivables.

The estimated fair value of the assets that are provided as collateral for financial assets are presented in the following table:

In thousands RSD	Stage 1	Stage 2	Stage 3	Total 2019
Real Estate	1,109,063	352,477	138,017	1,599,557
Cash deposits	25,393	11,927	-	37,320
Total	**1,134,456**	**364,404**	**138,017**	**1,636,877**

In thousands RSD	Stage 1	Stage 2	Stage 3	Total 2018
Real Estate	1,685,056	311,574	207,919	2,204,549
Cash deposits	16,636	12,286	-	28,922
Total	**1,701,692**	**323,860**	**207,919**	**2,233,471**

The Bank does not hold collateral for loans and receivables from banks and other financial organizations or for other assets.

Collection by activation of collaterals is executed through the Report on activation of collaterals and payments from their activation. Improvement in collection of loans secured by a mortgage on immovable property is considered at regular meetings of the NPL's management Committee.

The table below presents a breakdown of credit exposures from loans and receivables from clients secured by mortgage on immovable property according to ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the appraised value of the collateral.

2019	Gross exposure	Allowance for impairment	Net exposure	Allowance for impairment without collateral usage	Net exposure without collateral usage
<50%	296,257	(9,644)	286,613	(11,365)	284,892
51%-70%	151,086	(5,859)	145,227	(6,329)	144,757
71%-90%	50,728	(1,518)	49,209	(1,703)	49,025
90%-100%	8,012	(953)	7,059	(961)	7,052
>100%	20,380	(3,468)	16,912	(3,524)	16,856

2018	Gross exposure	Allowance for impairment	Net exposure	Allowance for impairment without collateral usage	Net exposure without collateral usage
<50%	434,791	(20,396)	414,394	(38,371)	396,420
51%-70%	196,441	(4,573)	191,868	(8,215)	188,225
71%-90%	84,475	(1,985)	82,489	(9,173)	75,302
90%-100%	17,276	(192)	17,085	(315)	16,962
>100%	18,918	(1,971)	16,947	(4,096)	14,823

iii. Impairment for expected credit losses (ECL)

The accounting policies for the impairment assessment are also provided under note 40 (G) (VII).

Significant increase in credit risk

When determining whether there has been a significant increase in the risk of delay of an individual financial instrument after initial measurement, the Bank is considering quantitative and qualitative information and analysis based on historical data and expert estimates that include „forward looking" information.

The Bank periodically assesses whether there has been a significant increase in credit risk in relation to the date of initial recognition and calculates an adequate amount of impairment on the basis of expected credit losses.

A significant increase in the credit risk for the segment of exposure to retail clients, entrepreneurs and legal entities is determined on the basis of a days past due of 30 days and qualitative factors (days past due in the Credit Bureau, balance of accounts in enforced collection, records on "watch" list that indicate a greater credit risk such as activation of collaterals, reprogram, transfer subject to collection department, etc.).

A significant increase in credit risk for the segment of exposure to countries and financial institutions was identified as a decline of two rating categories, observed in relation to the rating scale of renowned external rating agencies (Moody's, Fitch, S&P).

The assessment of whether the credit risk is significantly higher than the initial recognition of a financial instrument requires the identification of the initial recognition data of the financial instrument.

Stages of credit risk

The Bank will determine a credit risk stage for each exposure, based on a variety of data that is determined to be predictive of the risk of default and will apply credit assessment based on its experience. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Each exposure will be allocated to a certain credit risk grade on initial recognition, based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk stage.

The Bank has identified the parameters whose identification will reflect an increase in risk of default. In identifying a significant increase in credit risk at the level of a single financial instrument, the Bank will take care that this moment has been identified before the moment of default.

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures.

In accordance with the requirements of IFRS 9, the Bank has made a statistical analysis of the impact of macroeconomic parameters on default rate. The analysis was done separately for each business line (agro, business and retail segments).

This analysis will include the identification and calibration of relations between changes in default rates and changes in key macroeconomic factors, as well as in-depth analysis of the impact of certain other factors.

All financial assets for which calculations of the allowance for impairment are performed are allocated to one of the stages 1, 2 or 3, depending on the quality of the instrument, in the following way:

- Stage 1 - financial assets with low credit risk,
- Stage 2 - financial assets where a significant increase in credit risk has been identified,
- Stage 3 - financial assets where objective evidence of impairment has been identified.

The Bank assesses for each reporting period whether there has been a significant increase in credit risk for all financial assets. If the impairment for financial assets is measured at an amount equal to the lifetime expected credit loss from the previous reporting period, but determines on the current reporting date that the conditions are no longer met, the Bank will assess impairment for the amount equal to the expected twelve-month credit losses on the current reporting date.

In each reporting period, i.e. at the moment of estimating expected credit losses for the purposes of calculating the allowance for impairment, the Bank, in accordance with internal Methodology, assesses for all financial assets individually (at the level of a single asset) whether there has been a significant increase in credit risk.

In identifying a significant increase in credit risk at the level of a single financial asset, the Bank will take into account that the moment has been identified before the moment of default.

For the purpose of the analysis, the Bank identified a set of criteria that are used for assessment purposes and will use a comparison with the situation at the moment of the initial recognition of financial assets in accordance with IFRS 9 and the internal methodology. The identification of one or more of these indicators may indicate that there has been a significant increase in credit risk.

All financial assets for which calculations of the allowance for impairment are performed are allocated to one of the stages, namely 1, 2 or 3, depending on the quality of the instrument itself. Allocation is based on available information about the client. Exposure is subject to continuous monitoring, which may result in a transition to another stage. Normally, monitoring is carried out on the basis of the following data:

- Exposure to legal entities: information obtained on the basis of periodic analysis of financial statements, information obtained from the Credit Bureau, actual and expected significant changes in the political, business, regulatory and technological environment of the client, information on the history of borrowing and fulfilment of obligations held by the Bank, status of days past due, utilization of approved limits, reprogramming of other liabilities.
- Exposure to individuals: information obtained from the Credit Bureau, information on the history of borrowing and the fulfilment of liabilities that the Bank has, the status of days past due, refinancing and reprogramming, changes in the financial and economic environment.

Definition of default

The default status is a delay in repayment of loan annuities by longer than 90 days or less than 90 days if other qualitative criteria are identified that indicate that the borrower will be unable to settle obligations in full, which includes the negative effect on estimated future cash flows.

For these purposes, the Bank has identified the list of indicators that it will monitor to identify the status of default, for materially significant placements:

- the financial state of the debtor indicates significant business problems (debtor's account blocked for more than 90 days continuously, observed in the last 6 months);
- significant decrease in operating income (decrease> 50%, observed in the last two financial statements);
- significant decrease of debtors' capital (decrease> 50%, observed in the last two financial statements);
- debt service capacity indicator (negative Indicator of Cash Flow to Total Expenses ratio, calculated based on the last financial report);
- data shows client has been failing to orderly service interest and / or principal;
- the client was deleted from the business register;
- the Bank substantially changed the conditions for loan repayment due to client's financial difficulties in the last two years;
- the client is bankrupt or liquidated;
- the client did not submit the last financial statements to the Business Register's Agency;
- information that indicates business problems and may affect the inability to service debt, in addition to the mentioned events.

Forward-looking information

In accordance with IFRS 9, the Bank will include forward-looking information in its credit risk assessments.

The Bank has identified and documented key credit risk and loan loss drivers for each portfolio of financial instruments and, considering the analysis of historical data, it estimates the relations between macroeconomic variables and credit risk and credit losses.

In 2018, in the case of loans to retail customers, a statistical link was found between the default rate and the average wage expressed in euros, while in the case of loans to entrepreneurs and legal entities, a link was found between the rates of default with the price of oil on the world market.

Based on the developed internal regression model, the Bank forecasts expected default rates for periods for which there are adequate projections of macroeconomic parameters. This forecast is applied for a period no longer than 3 years, bearing in mind the unreliability and lack of adequate projections for longer periods.

As in 2019, the stable relationship between the independent variables and a default rate, could not be confirmed by the regression model, and through back-testing it was confirmed that the TTC (through the cycle) PDs are a better approximation of the PIT ("point in time") PDs, and these are taken into account for calculating the amount of impairment as at 31 December 2019. The implementation of the TTC PD parameters for 2018 did not show significant deviations from the "lifetime" PDs, which, in accordance with the methodology, included future predictions of macroeconomic variables.

Modified financial assets

In some circumstances, renegotiating or modifying contractual cash flows of a financial asset may lead to derecognition of an existing financial asset in accordance with IFRS 9. When a modification of a financial asset results in derecognition of an existing financial asset and the subsequent recognition of a modified financial asset, the modified asset will be considered as a "new" financial asset for the purposes of this standard, in accordance with the accounting policy in Note 40.G (IV).

In these situations, the Bank will perform a quantitative and qualitative assessment and estimate whether there is a significant difference between the cash flows of the original financial asset and the cash flows of a modified or replaced financial asset. If there is a significant difference in cash flows, contractual rights from the original financial asset will be considered as expired and a new asset issued under new conditions will need to be recognized.

According to the Bank's management, the gain or loss from the modification of financial assets in 2018 and 2019, which does not result in the derecognition of the financial asset, is not material.

Also, in 2018 and 2019, there are no financial assets that are impaired and whose contractual terms have been significantly modified so that the original asset recognition and the new financial asset (POCI) recognition are derecognized. For the purpose of calculating value adjustments, these assets would remain at level 3 for the entire period, that is, the calculation of life expectancy credit losses.

Measurement of expected credit losses (ECL)

The general approach of the Bank for calculating expected credit losses for the entire duration of the financial instrument can be represented by the following formula:

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

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

In this way, the expected loan losses for the lifetime of the financial instrument will be losses recognised by the Bank for the purposes of estimating value adjustment for stage 2, while the most one-year share of such estimated credit losses represents expected credit loss that is recognised for financial instruments in stage 1.

The key parameters for calculating expected losses are the following variables:

— probability of default (PD),
— loss given default (LGD), and
— exposure at default (EAD).

These parameters are based on internally developed statistical methods and models and other historical data that uses regulatory models and is adapted to reflect forward-looking information.

The Bank performs calculation of average PDs separately for agro, business and retail segments for the observed historical periods.

Within each segment, the Bank divides debtors by days past due according to the following groups: 0-1, 2-90 and over 90 days (clients that are in default status) in 2018..

During 2019, segments of debtors by days of delay were changed into the following groups: 0-5, 6-90 and over 90 days in which clients are in default status, that is, default.

Based on a series of migration matrices, the Bank calculates the average PDs TTC that reflect all internal and external factors that are dominant in the observed period.

The Bank applies the concept of separate calculation LGDsecured and LGDunsecured, depending on whether collateral has been provided for an individual placement.

For the purposes of calculating unsecured LGDs, the Bank monitors the collection of placements in default and identifies the causes because of which it occurred. For this purpose, each entry of the receivables into the default status is considered separately. All payments on that basis are chronologically identified.

For the purpose of calculating the LGD secured, or the expected loss rate after the activation of collateral, the Bank takes into account all internally available mortgages where there is an estimate of the probability of collectability.

EAD - represents exposures at the time of default, i.e. the current gross carrying value of a financial asset in accordance with IFRS 9 at the moment of default, taking into account the profile of contracted cash flows as well as possible additional withdrawals from approved lines before the moment of default. In case of the instruments where there are contractual cash flows, and where the maturity date is clearly agreed, the Bank takes into account the contracted cash flows according to the repayment plan as relevant. For financial assets that do not have defined cash flows, as well as the agreed maturity dates, they are determined based on empirical experience.

An assessment of the calculation of allowance for impairment for exposures in stage 3 is performed for:

— all exposures with identified default status;
— all financial assets that meet the definition of the POCI in accordance with IFRS 9.

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

In accordance with IFRS 9, expected credit losses represent the probability of a weighted assessment of credit losses, and accordingly, the Bank recognizes the existence of several possible collection scenarios in an individual estimate of expected future cash flows.

For this purpose, the applied scenarios take into account:

- realization of collateral (separately court and non-judicial),
- restructuring and reprogramming,
- bankruptcy,
- sale of receivables,
- settlement, and
- everything else considered as relevant.

When determining the probability of certain scenarios, the Bank is guided by the history of realization and collection of problematic placements, but also the specifics of the individual financial asset and accordingly corresponding weighs are allocated, which in the sum of all scenarios must be 100%.

In its internal methodology the Bank has defined the materiality thresholds (in accordance with segments – lines of business), based on which it will determine which exposures will be estimated through the expected cash flows assessment.

For exposures less than the threshold of material significance, a group approach is applied, which implies the grouping of remaining financial assets at stage 3 by segment. Due to the current lack of sufficient credit history, as well as collateral realization history, the Bank calculates the amount of allowance for impairment for exposures from Level 3 according to the following simplified model:

$$ECL = EAD \cdot LGD_{unsecured} \cdot (1 - p)$$

where EAD is the sum of all exposures from Level 3 at the moment of calculation and p reflects the assumption of two possible collecting scenarios.

Write-off policy

The Bank performs a write-off of financial assets (and any related allowance for impairment) when it is determined that the loans are uncollectible and completely impaired in accordance with the Decision on the Accounting Write-off of Bank Balance Sheet Assets ("Official Gazette of RS", No. 77/2017), after considering information such as the occurrence of significant changes in the client's financial position that can result in the fact the liabilities no longer can be paid, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Bank writes off the financial assets at the end of each month, at the end of the quarter at the latest. Each write-off proposal is assessed individually at the Risk Management Board meeting. Financial assets that have been written-off may still be subject to collection, in accordance with the Procedure for non-performing asset management.

The movement of the allowance for impairment in 2019 and 2018, is presented in the following tables:

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2019
Movement of the allowance for impairment of loans and receivables from clients				
Balance as at 1 January	**75,865**	**37,029**	**153,231**	**266,125**
Transfer to Stage 1	58,654	(37,424)	(21,230)	-
Transfer to Stage 2	(50,422)	124,407	(73,985)	-
Transfer to Stage 3	(243)	(15,589)	15,832	-
Net change of allowance for impairment for the current period	(41,136)	(62,467)	143,858	40,255
New financial assets recognised or acquired	62,091	-	-	62,091
Derecognition of a financial asset	(23,924)	(9,987)	(17,030)	(50,941)
Write-offs	-	-	(52,734)	(52,734)
Interest income on impaired assets	-	-	5,816	5,816
Foreign exchange differences	(260)	(100)	(373)	(733)
Balance as at 31 December	**80,625**	**35,869**	**153,385**	**269,879**

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2019
Movement of the allowance for impairment of loans and receivables from banks and other financial organisations				
Balance as at 1 January	**702**	**24,963**	**-**	**25,665**
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	(1)	425	(424)	-
Transfer to Stage 3	-	(135)	135	-
Net change of allowance for impairment for the current period	468	(5,460)	648	(4,344)
New financial assets recognised or acquired	617	-	-	617
Derecognition of a financial asset	(563)	-	-	(563)
Write-offs	-	-	-	0
Interest income on impaired assets	-	-	5	5
Foreign exchange differences	(5)	(109)	(5)	(119)
Balance as at 31 December	**1,219**	**19,683**	**359**	**21,261**

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2019
Movement of the allowance for impairment of other assets				
Balance as at 1 January	**601**	**137**	**16,551**	**17,289**
Transfer to Stage 1	431	(234)	(197)	-
Transfer to Stage 2	(278)	389	(111)	-
Transfer to Stage 3	(115)	(213)	328	-
Net change of allowance for impairment for the current period	(536)	(43)	937	341
New financial assets recognised or acquired	739	-	-	756
Derecognition of a financial asset	(380)	(13)	(290)	(683)
Foreign exchange differences	-	(1)	(54)	(55)
Balance as at 31 December	**462**	**22**	**17,164**	**17,648**

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2019
Movement of provisions for credit risk off-balance sheet items				
Balance as at 1 January	**30**	**5**	**77**	**112**
Transfer to Stage 1	77	-	(77)	-
Transfer to Stage 2	(3)	3	-	-
Transfer to Stage 3	-	-	-	-
Net change of allowance for impairment for the current period	(96)	(2)	-	(98)
New financial assets recognised or acquired	22	-	-	22
Derecognition of a financial asset	(6)	(5)	-	(11)
Balance as at 31 December	**24**	**1**	**-**	**25**

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2018
Movement of the allowance for impairment of loans and receivables from clients				
Balance as at 1 January	**90,441**	**37,589**	**141,966**	**269,996**
Transfer to Stage 1	710	(213)	(497)	-
Transfer to Stage 2	(13,158)	16,690	(3,532)	-
Transfer to Stage 3	(5,629)	(15,707)	21,336	-
Net change of allowance for impairment for the current period	(16,910)	4,221	121,637	108,948
New financial assets recognised or acquired	50,564	-	-	50,564
Derecognition of a financial asset	(30,153)	(5,551)	(12,847)	(48,551)
Write-offs	-	-	(114,832)	(114,832)
Balance as at 31 December	**75,865**	**37,029**	**153,231**	**266,125**

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2018
Movement of the allowance for impairment of loans and receivables from banks and other financial organisations				
Balance as at 1 January	**160**	**15**	**-**	**175**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(5)	5	-
Net change of allowance for impairment for the current period	516	24,953	83	25,552
New financial assets recognised or acquired	33	-	-	33
Derecognition of a financial asset	(7)	-	-	(7)
Write-offs	-	-	(88)	(88)
Balance as at 31 December	**702**	**24,963**	**-**	**25,665**

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2018
Movement of the allowance for impairment of other assets				
Balance as at 1 January	**514**	**8**	**40,625**	**41,147**
Transfer to Stage 1	283	-	(283)	-
Transfer to Stage 2	-	9	(9)	-
Transfer to Stage 3	-	(3)	3	-
Net change of allowance for impairment for the current period	(69)	126	1,099	1,156
New financial assets recognised or acquired	114	-	-	114
Derecognition of a financial asset	(241)	(3)	(369)	(613)
Write-offs	-	-	(24,515)	(24,515)
Balance as at 31 December	**601**	**137**	**16,551**	**17,289**

In thousands of RSD	Stage 1	Stage 2	Stage 3	Total 2018
Movement of provisions for credit risk off-balance sheet items				
Balance as at 1 January	**60**	**29**	**61**	**150**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(4)	4	-	-
Transfer to Stage 3	-	-	-	-
Net change of allowance for impairment for the current period	1	1	77	79
New financial assets recognised or acquired	25	-	-	25
Derecognition of a financial asset	(52)	(29)	(61)	(142)
Balance as at 31 December	**30**	**5**	**77**	**112**

iv. Concentration of credit risk

The Bank monitors credit risk concentrations in industrial sectors. An overview of the Bank's exposure to credit risk by industry sector is given in the following tables:

In thousands of RSD	Loans and receivables from clients	Loans and receivables from banks and other financial organisations	Other assets	Off-balance	**Total 2019**
Corporate clients					
Trade	157,639	-	6,661	1,126	165,426
Manufacturing	98,216	-	1,294	1,556	101,066
Agriculture	4,789	-	160	760	5,709
Construction	21,329	-	3,500	530	25,359
Transport and services	154,371	-	4,190	5,823	164,384
Other	75,961	-	9,174	465	85,600
Total	**512,305**	-	**24,979**	**10,260**	**547,544**
Retail clients	10,277,269	-	23,966	-	10,301,235
Entrepreneurs	3,210,017	-	5,038	5,473	3,220,528
Total	**13,487,286**	-	**29,004**	**5,473**	**13,521,763**
Public sector	523	-	13,967	-	14,490
Foreign legal entities	-	242,996	4,632	-	247,628
Foreign banks	-	329,215	141	-	329,356
Financial sector	-	500,288	10,290	-	510,578
Allowance for impairment	**(269,879)**	**(21,261)**	**(17,648)**	**(25)**	**(308,813)**
Balance as at 31 December	**13,730,235**	**1,051,238**	**65,365**	**15,708**	**14,862,546**

In thousands of RSD	Loans and receivables from clients	Loans and receivables from banks and other financial organisations	Other assets	Off-balance	**Total 2018**
Corporate clients					
Trade	167,793	-	6,828	3,067	177,688
Manufacturing	124,134	-	1,496	852	126,482
Agriculture	12,213	-	148	327	12,688
Construction	20,491	-	4,261	431	25,183
Transport and services	180,541	-	1,247	6,371	188,159
Other	80,342	-	13,828	364	94,534
Total	**585,514**	-	**27,808**	**11,412**	**624,734**
Retail clients	9,505,647	-	21,272	-	9,526,919
Entrepreneurs	2,614,433	-	3,723	10,477	2,628,633
Total	**12,120,080**	-	**24,995**	**10,477**	**12,155,552**
Public sector	69	-	22,734	-	22,803
Foreign legal entities	-	239,369	14,417	-	253,786
Foreign banks	-	118,471	434	-	118,905
Financial sector	-	266,206	9,876	-	276,082
Allowance for impairment	**(266,125)**	**(25,665)**	**(17,289)**	**(112)**	**(309,191)**
Balance as at 31 December	**12,439,538**	**598,381**	**82,975**	**21,777**	**13,142,671**

The Bank has not made any placements to clients outside of the Republic of Serbia in 2019 and 2018. Within receivables from financial organizations, the amount of RSD 243 million relates to the loan to a foreign legal entity based in the Netherlands whose activity is investing in the capital of small and medium-sized enterprises in Serbia.

v. Netting of financial assets and liabilities

Financial assets and liabilities are netted and the net amount is shown in the balance sheet only when the Bank has the legal right to net the amounts or when it intends to settle them on a net basis, or to realize the asset and liability at the same time. Revenues and expenses are presented on a net basis only when IFRS allows it, as well as gains and losses from a group of similar transactions.

On 31 December 2019, the Bank does not have any currently effective framework contracts on netting of financial assets and liabilities to which netting regulations could be applied.

B. Liquidity risk

The definition of liquidity risk and information on how the Bank manages liquidity risk are given in Note no. 37.C.

i. Liquidity risk exposure

The Bank monitors exposure to liquidity risk at the level of externally and internally prescribed limits. The Bank calculates the liquidity indicators every day, within the prescribed deadlines, in a prescribed manner and it submits them to the National Bank of Serbia. The Bank monitors internal liquidity indicators through internal reports on dinar and foreign exchange liquidity, which are submitted to the Bank's management daily.

The National Bank of Serbia prescribed the minimum value of the liquidity indicators, which represents the ratio between the sum of liquid assets of the first and the second rank and the sum of sight liabilities without agreed maturity and liabilities with agreed maturity within the following month. The prescribed minimum values are:

- 1.0 for the average of liquidity indicators for all days of the month,
- 0.9 longer than three consecutive working days, and
- 0.8 when calculated for one business day.

The ratio of liquid assets and short-term liabilities on the reporting date and during the reporting period:

In %	2019	2018
On 31 December	4.61	5.29
Average for the period	4.24	4.32
Maximum for the period	6.48	8.06
Minimum for the period	3.31	2.03

The National Bank of Serbia prescribed the minimum value of the liquidity indicator in a narrower sense which represents the ratio between the sum of liquid assets of the first rank and the sum of sight liabilities without agreed maturity and liabilities with agreed maturity within the following month. The prescribed minimum values are:

- 0.7 for the average of liquidity indicators for all days of the month,
- 0.6 longer than three consecutive working days, and
- 0.5 when calculated for one working day.

The narrow liquidity ratio on the reporting date and during the reporting period:

In %	2019	2018
On 31 December	3.55	4.20
Average for the period	3.19	3.17
Maximum for the period	5.27	5.75
Minimum for the period	2.44	1.65

The Bank devotes special attention to the liquidity measures defined by the Basel III regulations that the National Bank of Serbia prescribed as mandatory. The liquidity coverage ratio (LCR) is monitored on a monthly basis as a ratio of the Bank's liquidity buffer and net outflow of liquidity over a period of 30 calendar days. The Bank's goal is to maintain a high level of quality liquid assets that can withstand the stress scenario for a period of 30 days, i.e. to cover net outflows of liquid assets. The internal limit of liquidity asset coverage levels is included in the internal risk management system and amounts to 125%, which is above the level prescribed by the regulator.

ii. Analysis of the maturity of financial assets and liabilities

In order to manage liquidity risk, liquidity gaps are calculated, whereby the data used for analysing the structure of the Bank's balance sheet also provides the basis for establishing indicators of structure and of concentration used to determine the level of liquidity risk. The following table shows the remaining contractual maturities of financial assets and financial liabilities of the Bank.

In RSD thousand	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total Cash Flow	Book value
31 December 2019							
Assets							
Cash and assets held with the central bank	2,691,952	-	-	-	-	2,691,952	**2,691,952**
Loans and receivables from banks and other financial organisations	823,337	564	2,267	2,436	252,628	1,081,233	**1,051,238**
Loans and receivables from clients	965,065	1,880,179	6,662,427	6,236,191	538,161	16,282,024	**13,730,235**
Other assets	54,199	-	-	-	-	54,199	**88,324**
Total Assets	**4,534,554**	**1,880,743**	**6,664,694**	**6,238,628**	**790,790**	**20,109,408**	**17,561,749**
Inflows on off-balance sheet items	-	-	-	-	-	-	-
Liabilities							
Deposits and other liabilities to banks, other financial organisations and central bank	7,696	32,000	2,769,797	623,368	131,281	3,564,143	**3,365,323**
Deposits and other financial liabilities to clients	668,311	418,826	2,694,723	6,312,137	0	10,093,997	**9,667,344**
Subordinated liabilities	9,015	19,370	-	998,669	576,206	1,603,260	**1,183,736**
Reservations	-	1,221	68,218	16,087	18,675	104,201	**104,201**
Current tax liabilities	-	-	2,139	-	-	2,139	**2,139**
Total Liabilities	**685,022**	**471,418**	**5,534,878**	**7,950,261**	**726,162**	**15,367,740**	**14,322,743**
Outflows on off-balance sheet items	1,573	-	-	-	-	1,573	-
Net liquidity gap as at 31 December 2019	**3,847,958**	**1,409,325**	**1,129,816**	**(1,711,633)**	**64,628**	**4,740,095**	-
Cumulative liquidity gap	**3,847,958**	**5,257,284**	**6,387,100**	**4,675,467**	**4,740,095**	**-**	**-**

The following table shows the analysis of financial assets and liabilities of the Bank by the respective maturity groups in accordance with the remaining maturity as at 31 December 2018.

In RSD thousand	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total Cash Flow	Book value
31 December 2018							
Assets							
Cash and assets held with the central bank	2,496,936	-	-	-	-	2,496,936	**2,496,936**
Loans and receivables from banks and other financial organisations	377,811	-	-	-	236,389	614,200	**598,381**
Loans and receivables from clients	754,458	1,404,201	5,446,332	8,148,652	860,816	16,614,459	**12,439,538**
Other assets	82,975	-	-	-	-	82,975	**82,975**
Total Assets	**3,712,183**	**1,404,201**	**5,446,332**	**8,148,652**	**1,097,205**	**19,808,570**	**15,617,830**
Inflows on off-balance sheet items	-	-	-	-	-	-	-
Liabilities							
Deposits and other liabilities to banks, other financial organisations and central bank	-	30,799	716,366	2,736,262	-	3,483,427	**3,990,168**
Deposits and other financial liabilities to clients	464,202	526,836	1,771,034	6,689,956	63,616	9,515,644	**8,026,858**
Subordinated liabilities	-	8,695	42,491	662,885	253,989	968,060	**711,987**
Total Liabilities	**464,202**	**566,330**	**2,529,891**	**10,089,103**	**317,605**	**13,967,131**	**12,729,013**
Outflows on off-balance sheet items	-	-	300	21,589	-	21,889	-
Net liquidity gap as at 31 December 2018	**3,247,981**	**837,871**	**2,916,141**	**(1,962,040)**	**779,600**	**5,819,553**	-
Cumulative liquidity gap	**3,247,981**	**4,084,616**	**7,000,757**	**5,038,717**	**5,819,553**	**-**	**-**

The negative gap in the interval of 1-5 years as of December 31, 2019 and December 31, 2019, is largely due to the expected maturities of long-term term deposits and long-term loans taken from international financial institutions. With its financing plan, the Bank envisages expanding its deposit potential and renewing long-term borrowings before the maturity of existing liabilities. At the same time, the level of inflow from the return of the placements to the clients has increased during this time interval, so the gap decreases from year to year.

The amounts in the tables above are calculated as undiscounted cash flows that also include expected interest rates. Contractual cash flows have been modified for expected early repayment of loans and early withdrawal of term deposits. For items without contractual maturity, assumptions derived from an internal model are applied as to when cash flow will be generated. Potential outflows were presented for issued guarantees and other commitments.

The table below presents the nominal values of non-derivative financial assets and liabilities that are expected to be recovered or settled after more than 12 months from the reporting date.

In RSD thousand	2019	2018
Loans and receivables from banks and other financial organisations	255,065	237,707
Loans and receivables from clients	6,774,352	9,009,468
Financial assets	**7,029,417**	**9,247,175**
Deposits and other liabilities to banks, other financial organisations and central bank	754,649	2,736,262
Deposits and other liabilities to clients	6,312,137	6,756,566
Subordinated liabilities	1,574,875	916,874
Provisions	34,762	71,296
Financial liabilities	**8,676,423**	**10,480,998**

iii. Liquidity reserves of the Bank

The following table shows elements of the liquidity reserve of the Bank:

	2019		2018	
In RSD thousand	Book Value	Fair Value	Book Value	Fair Value
Balances with central bank	2,543,294	2,543,294	2,323,567	2,323,567
Balances with other banks	495,073	495,073	277,151	277,151
Other cash and cash equivalents	148,658	148,658	173,369	173,369
Total liquidity reserves	**3,187,025**	**3,187,025**	**2,774,087**	**2,774,087**

iv. Assets available to secure future funding

The following table shows how much of the Bank's financial resources are available to support future funding:

	2019		2018	
In RSD thousand	Available balances	Limitedly available	Available balances	Limitedly available
Balances with central bank	1,400,000	-	1,331,107	-
Mandatory reserve	-	1,143,294	-	992,460
Balances with other banks	495,073	-	277,151	-
Other cash and cash equivalents	148,658	-	173,369	-
Loans and receivables from clients	13,730,235	-	12,439,538	-
Total	**15,773,966**	**1,143,294**	**14,221,165**	**992,460**

The Bank considers the mandatory reserve held with the National Bank of Serbia as assets that are available for future financing with limitation and which it can disposed of only under restrictions prescribed by domestic legislation and the rules of National Bank of Serbia.

v. Pledged financial assets

Over the financial assets that the Bank discloses as at 31 December 2019, there are no burdens (mortgages, pledge rights, real services, real burdens, notes, lease rights, bans of alienation, etc.), nor are they the subject of a decision on execution.

C. Market Risks

The definition of market risks and information on how the Bank manages market risks of a banking book are given in Note no. 37.D.

i. Exposure to market risks – Trading book

The Bank analyses financial assets, which it disposes of from the aspect of listing in a Trading book or in a Banking book, based on the following criteria:

Financial assets are classified to the Trading book if they meet the following criteria:

- securities that are traded regularly;
- the instrument is managed through the organizational unit of the Trading desk;
- the aim of holding the instrument is:
  - sale in the short term,
  - making profit due to short-term price changes,
  - fixing profits made by arbitration,
  - risk hedging arising from instruments classified into a trading book.

Therefore, the Bank concludes that as at 31 December 2019 there are no financial assets that belong to the Trading book.

ii. Exposure to interest rate risk - Banking book

The following table contains an analysis of the Bank's exposure to the interest rate risk with the balance as at 31 December 2019 on the basis of the Banking book. Gap interest rate risk analysis includes balance sheet items that the Bank intends to hold to maturity and which are classified according to the time remaining until the next determination of the interest rate (re-pricing), i.e. according to the remaining maturity (positions with a fixed interest rate):

In RSD thousand	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	More than 5 years	Total interest rate sensitive	Book value
31 December 2019							
Assets							
Cash and assets held with the central bank	2,261,805	-	430,147	-	-	2,691,952	2,691,952
Loans and receivables from banks and other financial organisations	949,651	564	2,267	2,581	126,314	1,081,377	1,051,238
Loans and receivables from clients	737,782	1,477,520	5,664,870	9,198,814	1,043,060	18,122,045	13,730,235
Other assets	-	-	-	-	-	-	65,635
Total Assets	**3,949,238**	**1,478,083**	**6,097,284**	**9,201,395**	**1,169,374**	**21,895,374**	**17,539,060**
Liabilities							
Deposits and other liabilities to banks, other financial organisations and central bank	1,028,298	655,345	1,176,755	1,579,871	262,563	4,702,832	3,365,323
Deposits and other financial liabilities to clients	396,792	340,795	3,134,614	5,179,983	-	9,052,184	9,667,344
Subordinated liabilities	9,015	19,371	52,878	945,791	576,205	1,603,260	1,183,736
Total Liabilities	**1,434,105**	**1,015,511**	**4,364,247**	**7,705,645**	**838,767**	**15,358,276**	**14,216,403**
Net interest gap as at 31 December 2019	**2,515,133**	**462,572**	**1,733,037**	**1,495,750**	**330,607**	**6,537,098**	-

The following table contains an analysis of the Bank's exposure to the risk of a change in interest rates as at 31 December 2018.

In RSD thousand	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	More than 5 years	Total interest rate sensitive	Book value
31 December 2018							
Assets							
Cash and assets held with the central bank	1,330,000	-	387,505	-	-	1,717,505	**2,496,936**
Loans and receivables from banks and other financial organisations	377,811	-	236,389	-	-	614,200	**598,381**
Loans and receivables from clients	616,358	1,409,361	5,658,633	8,147,335	782,772	16,614,459	**12,439,538**
Other assets	82,975	-	-	-	-	82,975	**82,975**
Total Assets	**2,407,144**	**1,409,361**	**6,282,527**	**8,147,335**	**782,772**	**19,029,139**	**15,617,830**
Liabilities							
Deposits and other liabilities to banks, other financial organisations and central bank	-	717,174	849,183	1,917,070	-	3,483,427	**3,990,168**
Deposits and other financial liabilities to clients	1,165,095	292,423	3,553,854	4,440,656	63,616	9,515,644	**8,026,858**
Subordinated liabilities	-	8,695	42,491	662,885	253,989	968,060	**711,987**
Total Liabilities	**1,165,095**	**1,018,292**	**4,445,528**	**7,020,611**	**317,605**	**13,967,131**	**12,729,013**
Net interest gap as at 31 December 2018	**1,242,049**	**391,069**	**1,836,999**	**1,126,724**	**465,167**	**5,062,008**	-

The management of interest rate risk is supplemented by controlling the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios of the movements of interest rates. Standard scenarios are considered on a monthly basis and they include a 200 basis points (bps) of parallel fall or rise in all yield curves in Serbia.

Analysis of the Bank's sensitivity to an increase or decrease in market interest rates assuming parallel movements of the yield curve as at 31 December 2019 and 31 December 2018 are as follows:

Effects of changes in market interest rates on capital	100 bp parallel increase	100 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease	300 bp parallel increase	300 bp parallel decrease
As at 31 December 2019						
Interest rate change on						
Assets	7.71%	-7.96%	15.19%	-16.18%	22.43%	-24.68%
Liabilities	6.91%	-7.18%	13.56%	-14.65%	19.97%	-22.42%
Gap	0.80%	-0.78%	1.78%	-1.54%	2.46%	-2.26%
Limit	10.00%	-10.00%	10.00%	-10.00%	10.00%	-10.00%
As at 31 December 2018						
Interest rate change on						
Assets	8.10%	-8.34%	15.96%	-16.93%	22.61%	-25.78%
Liabilities	6.60%	-6.79%	13.01%	-13.78%	19.24%	-20.98%
Gap	1.55%	-1.55%	2.96%	-3.15%	4.37%	-4.81%
Limit	10.00%	-10.00%	10.00%	-10.00%	10.00%	-10.00%

Effect of changes in market interest rates on the income statement	100 bp parallel increase	100 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease	300 bp parallel increase	300 bp parallel decrease
As at 31 December 2019						
Interest rate change on						
Assets	13.73%	-14.17%	27.03%	-28.80%	39.92%	-43.92%
Liabilities	12.29%	-12.78%	24.13%	-26.07%	35.54%	-39.90%
Cumulative	1.43%	-1.39%	2.90%	-2.73%	4.39%	-4.02%
As at 31 December 2018						
Interest rate change on						
Assets	12.38%	-12.75%	24.41%	-25.88%	36.09%	-39.42%
Liabilities	10.08%	-10.38%	19.88%	-21.06%	29.41%	-32.07%
Cumulative	2.30%	-2.37%	4.52%	-4.82%	6.68%	-7.35%

Parallel movement of the yield curve affects capital by increasing/decreasing net interest income.

Interest rate risk is measured, monitored and reported by the Market risk department, ICAAP and Portfolio Management Division. The Executive Board, at the recommendation of the ALCO, makes decisions on managing aggregate positions that affect interest rate risk, investments in securities, amounts and maturity of interbank loans and account balances with central and other banks.

iii. Exposure to currency risk - Banking book

The maximum indicator of currency risk (net open position) at the end of each working day is determined in accordance with the regulations of the National Bank of Serbia. In order to reduce the potential negative impact of exchange rate fluctuations on the structure of foreign currency assets and liabilities, the Bank monitors, measures and adjusts its foreign currency position on a daily basis.

In 2019 the Bank suspended operations in USD and CHF.

Exposure to currency risk

In RSD thousand	USD	EUR and currency clause	CHF	RSD	Total
Assets					
Cash and assets held with the central bank	-	756,013	-	1,935,939	2,691,952
Loans and receivables from banks and other financial organisations	-	901,273	-	149,965	1,051,238
Loans and receivables from clients	-	7,220,986	-	6,509,249	13,730,235
Other assets	-	6,307	-	59,328	65,635
Total Assets	**-**	**8,884,579**	**-**	**8,654,481**	**17,539,060**
Liabilities					
Deposits and other liabilities to banks, other financial organisations and central bank	-	1,998,541	-	1,366,782	3,365,323
Deposits and other financial liabilities to clients	-	5,617,799	-	4,049,545	9,667,344
Subordinated liabilities	-	1,183,736	-	-	1,183,736
Total Liabilities	**-**	**8,800,076**	**-**	**5,416,327**	**14,216,403**
Net currency gap as at 31 December 2019	**-**	**84,503**	**-**	**3,238,154**	**-**
Net currency gap as at 31 December 2018	**607**	**10,775**	**752**	**2,876,683**	**-**

The foreign currency positions balance sheet, besides foreign currency assets and liabilities, also includes assets and liabilities in RSD with a foreign currency clause.

The following table shows the sensitivity of regulatory capital and gains on exchange rate changes by 20%:

	USD	EUR	CHF	Total
31-Dec-19				
Effect of currency increase by 20%	-	14,044	-	14,044
Effect on regulatory capital	-	0.36%	-	0.36%
Effect on profit	-	3.06%	-	3.06%
31-Dec-18				
Effect of currency increase by 20%	121	2,155	150	2,426
Effect on regulatory capital	0.00%	0.08%	0.01%	0.09%
Effect on profit	0.03%	0.51%	0.04%	0.58%

D. Capital Management

i. Regulatory Capital

The Bank's regulator, the National Bank of Serbia (NBS), sets and monitors the Bank's capital requirements based on the principles of Basel III. In order to achieve the existing capital requirements, the NBS requires the Bank to maintain the minimum prescribed capital adequacy ratio of 8%, which represents the percentage ratio of capital and risk-weighted assets of the Bank, a minimum indicator of capital adequacy of 6.5% of the Bank, which represents a percentage of the core capital and risk-weighted assets of the bank and a minimum indicator of the adequacy of the basic share capital of 4.5% of the Bank, which represents the percentage ratio of the core share capital and risk-weighted assets of the Bank.

Risk-weighted assets are the sum of the following amounts:

— the total amount of risk-weighted exposure amounts to credit risk, counterparty risk, risk of decrease in the value of purchased receivables, for all the business activities of the bank, except for trading book activities, and settlement risk;
— capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy ratio.

The regulatory capital of the Bank is the sum of core capital and supplementary capital, whereby the core capital of the Bank is the sum of the basic share capital and supplementary basic capital.

The basic share capital of the bank is represented by the following elements deducted for deductible items:

— shares and other instruments of basic share capital;
— the related share issue premiums with instruments of basic share capital, i.e. the amount paid above the nominal value of these instruments;
— revaluation reserves and other unrealized gains;
— reserves from profit and other reserves of the bank.

Deductions from basic share capital are:

— intangible assets, deducted by the amount of deferred tax liabilities that would cease to exist in case of impairment or derecognition of intangible assets in accordance with IFRS/IAS;
— the amount of required reserves for estimated losses on balance sheet assets and off-balance sheet items of the Bank.

The supplementary capital of the Bank consists of supplementary capital instruments and liabilities for subordinated loans.

The amount in which the supplementary capital instruments or subordinated liabilities are included in the calculation of the Bank's supplementary capital over the past five years prior to their maturity date is obtained by determining the ratio of their nominal value, i.e. principal, on the first day of the last five-year period prior to maturity and the number of calendar days in that period shall be multiplied by the number of the remaining calendar days to the maturity of instruments or subordinated liabilities, on the day of calculation.

During its operations, the Bank must ensure that the amount of regulatory capital never falls below EUR 10 million in RSD counter value at the average exchange rate.

ii. Allocation of capital

The following table shows the position of the Bank's capital as at December 31:

In RSD thousand	Note	2019	2018
BASIC CAPITAL			
BASIC SHARE CAPITAL		2,929,013	2,125,702
- Instruments of basic share capital and associated premium		1,857,797	1,857,797
- Amount paid of instruments of basic share capital	31	1,775,940	1,775,940
- Share Premium	31	81,857	81,857
- (-) Accumulated losses from the previous period		-	-
- Revaluation reserves and other unrealized gains	31	105,527	88,080
- Profit reserves	31	1,181,847	619,571
- (-) Other intangible assets minus related deferred tax liabilities		(165,639)	(118,263)
- (-)Other intangible assets before impairment for related deferred tax liabilities		(175,425)	(128,190)
- Deferred tax liabilities arising from other intangible assets that would cease to exist in case of impairment or derecognition of intangible assets in accordance with IFRS / IAS		9,786	9,926
- (-) Required reserve for estimated losses on balance sheet assets and off-balance sheet items		-	(321,483)
- (-) Gross amount of claims from debtors –individuals (except farmers and entrepreneurs)		(36,095)	-
- (-) Gross amount of claims from debtors –individuals (except farmers and entrepreneurs)		(14,424)	-
ADDITIONAL BASIC CAPITAL		-	-
TOTAL BASIC CAPITAL		**2,929,013**	**2,125,702**
SUPPLEMENTARY CAPITAL			
- Subordinated liabilities	28	1,020,597	663,598
- Out of which: the amount of subordinated liabilities that were eligible for inclusion in the additional capital of the bank was paid up to 30 June 2017, which the Bank includes in supplementary capital until 31 December 2022, in accordance with transitional provisions of the Decision on Capital Adequacy of Banks	28	331,011	427,209
- Note: Subordinated liabilities that have ceased to qualify for inclusion in supplementary capital	28	155,330	45,569
TOTAL SUPPLEMENTARY CAPITAL		**1,020,597**	**663,598**
TOTAL CAPITAL		**3,949,610**	**2,789,300**
The risk-weighted exposure amounts for credit risk, counterparty risk, risk of decrease in the value of the purchased receivables and the risk of settlement / delivery		**11,387,614**	**9,890,815**
Risk-weighted assets based on operational risk exposure		**3,463,122**	**3,008,537**
Basic share capital adequacy ratio		**19.72%**	**16.48%**
Basic capital adequacy ratio		**19.72%**	**16.48%**
Capital adequacy ratio		**26.60%**	**21.62%**
Layers of protection			
Combined equity buffer		**591.469**	**524.247**
Preservation of capital		371.268	322.483
Capital buffer for structural systemic risk		220.201	201.764

As at December 2019, the regulatory capital of the Bank amounted to EUR 33,587 thousand (31 December 2018: EUR 23,599 thousand), thus fulfilling the requirement that the minimum amount should be EUR 10 million.

The Bank has complied with the regulatory requirements as of December 31, 2019 given in the following table:

	Regulatory requirements	The Bank	
		2019	2018
Regulatory capital (in EUR mill)	min 10.00	33.59	23.60
Basic share capital adequacy ratio	min 4.50%	19.72%	16.48%
Share capital adequacy ratio	min 6.00%	19.72%	16.48%
Capital adequacy ratio	min 8.00%	26.60%	21.62%
Ratio of permanent investments	max 60%	13.03%	13.50%
Exposure to a single party or group of related parties	max 25%	-	-
Sum of large exposures of the Bank	max 400%	-	-
Liquidity ratio	min 1.00	4.61	5.29
Narrow liquidity ratio	min 0.70	3.55	4.20
LCR	min 100%	587%	643%
Foreign currency risk ratio	max 20%	0.76%	0.41%
Concentration risk indicator	max 30%	11.46%	N/P

E. Reform of Reference Interest Rates

In September 2019, the International Accounting Standards Board announced amendments to IAS 39, IFRS 9 and IFRS 7 relating to market uncertainty in interbank interest rates (IBOR reform).

The amendments mainly affect the financial instruments that qualify for hedge accounting in accordance with IAS 39 and IFRS 9. They are effective for annual reporting periods beginning on or after 1 January 2020. Because the Bank has not applied hedge accounting so far, the aforementioned changes are not applicable to the Bank's operations.

As the Bank's strategic commitment is to continue:

— To place loans to clients at fixed rates, the Bank has estimated that there is no significant exposure to risks from key interest rate reforms on the client lending side.
— To attract demand deposits, the Bank already has a range of attractive deposit products with attractive fixed rates and believes that customers would be motivated to replace variable interest rate accounts with fixed rate savings accounts. The Bank has no financial obligations that depend on other types of IBOR rates.

In this regard, the Bank has assessed that there is no significant exposure to the risks arising from the reform of key interest rates on the side of investments and sources of funds.

The Bank will continue to monitor changes in the benchmarking process and their potential impact on its operations and is ready to take into account the latest developments and best practices of banks in this field with amendments to existing credit and deposit agreements.

7. Fair value of financial instruments

A. Models for fair value measurement

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used during measurement:

- Level 1: Quoted market prices (unadjusted) in an active market for identical instruments.
- Level 2: Valuation techniques which are not quoted market price for identical instruments in market, that are based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets from similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable and available data and as such have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant adjustments or assumptions are required to reflect difference between the instruments' values.

Valuation techniques include a model for discounting future cash flows compared to similar instruments for which there is a market price, as well as a Nelson-Siegel-Svensson (NSS) model for projecting yield curves. The Bank collects the assumptions and data used in the appraisal from active markets in the Republic of Serbia (interbank, OTC, offers of banks, etc.).

The objective of the valuation technique is to determine fair value that will best reflect the value of a financial instrument on the reporting date that would be determined by market participants at arm's length. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank uses valuation models that are widely used to determine the fair value of simple financial instruments, such as interest rates on the interbank market, interest swaps that are based on observable inputs and that require little estimation. Observable prices or inputs for models are commonly available on primary and secondary securities markets, the interbank market and interest swaps. The existence of these rates reduces the need for estimates and reduces the uncertainty associated with fair value measurement.

For instruments for which markets are not sufficiently broad and deep, the Bank uses valuation models that are based on observable market inputs. Estimates are also used when determining future cash flows, probability of default, payment, or future early repayment and withdrawal of funds.

Fair values derived from the model are adjusted for liquidity risk, the impact of the mandatory reserve, and the expected return of the average investor in the market to the extent that it is applicable to the particular financial instrument being measured. Fair value also reflects the credit risk of the instrument and includes adjustments based on the Bank's credit risk, if applicable for the particular financial instrument being measured.

Measurement of financial instruments

I. Cash, assets held with central bank, Deposits and other liabilities to banks, other financial organisations and central bank

The fair value of cash and assets held with central bank, deposits and other liabilities to banks, other financial institutions, and central bank equals the book value of given financial assets as they are short-term financial instruments.

II. Loans and receivables from clients and Loans and receivables from banks and other financial organisations

The fair value of loans and receivables from clients is calculated by using expected and modelled cash flows, i.e. contractual cash flows adjusted for expected losses on credit and other risks and adjusted for expected effects based on embedded explicit and implicit options and discount rates. Since the cash flow already includes the risk adjustments, the Bank used a discount rate for fair value measurement purposes that includes the time value of money, i.e. the "risk-free" rate, the liquidity premium, the cost of the mandatory reserve and the required margin of the average investor that reflects the investment horizon.

In order to determine risk-free rates, the Bank takes publicly available prices from the interbank market and the primary and secondary securities market for dinars, and projects the missing maturities with the Nelsson-Siegel-Svensson model. In order to determine the risk-free rates for euros, the Bank uses the publicly available zero-swap rates. The liquidity premium is determined using quotations on the active interbank market, while the required investor margin rate is determined on the basis of the average ROE (return on equity) of the banking sector of Serbia determined on the basis of the latest publicly available data, the National Bank of Serbia on 30 September 2019 for the current and on 31 December 2018 for the comparative period.

III. Deposits and other financial liabilities to clients

For financial liabilities with no agreed maturity date, i.e. payable per day, the Bank considers that as the payment can be demanded at any time, the fair value equals the carrying amount of the liability.

The fair value of deposits and other liabilities towards other clients is calculated by using expected and modelled cash flows, i.e. contractual cash flows adjusted for expected effects based on embedded explicit and implicit options and discount rates. Measurement of the fair value of the liability starts from the assumption that the given liability is transferred to the market participant on the day of measurement, in the nominal amount of the liability increased by the agreed interest, which will be paid on the maturity date of the liability.

The Bank calculates the rates of discounting to the present value by starting from the rate on similar deposits offered by banks on the market of the Republic of Serbia available on their website, weighted by the deposit potential of a specific bank in the market, determined on the basis of the latest available data of the National Bank of Serbia on the banks' balance sheets as at 30 September 2019 for current and 31 December 2018 for a comparative period. For maturities for which there is insufficient market data available, the NSS model approximation is used.

IV. Subordinated liabilities

Subordinated liabilities are measured at amortized cost. The fair value of subordinated liabilities is calculated by using contractual cash flows. The yield curve required for discounting to the present value is calculated by calculating the idiosyncratic risk of the bank as the difference between the last valid bid for a subordinated loan in euros received by the Bank from a banking institution with headquarters in the European Union and a rating of AAA and a zero- swap "curves for the corresponding maturity. This risk premium is added to all zero-swap values.

Due to the fact that this curve contains an assessment of the Bank's credit risk by a European Union-based banking institution and a rating of AAA, it is considered that it best represents the risk profile of the Bank.

B. Organization of the process

The Department for Market and Other Risks is responsible for processes and methodologies for calculating the fair value of financial assets and liabilities. This Department first determines whether a specific financial instrument is the subject of fair value measurement and selects appropriate approach and techniques for fair value measurement. Then, the inputs for measurement are defined, calculation performed and disclosure on fair value measurement being made.

In the process of determining the classification of a financial instrument at levels 1-3 of the fair value hierarchy, the Bank considers whether there are quoted prices for an identical instrument. If they exist and these prices do not have to be adjusted, the Bank puts the instrument in Level 1. If quoted prices exist, but they need to be adjusted, however no significant unobservable inputs are applied, the instrument is classified in Level 2. In case the fair value measurement requires the use of some significant unobservable input, financial assets and liabilities are treated as Level 3 in the fair value hierarchy.

C. Financial instruments measured at fair value - fair value hierarchy

As at 31 December 2019 and as at 31 December 2018, the Bank did not have any items in the balance sheet at fair value.

There were no transfers between Level 1 and Level 2 during 2019 and 2018.

D. Financial assets and liabilities not measured at fair value

The following table presents the fair value of financial instruments not measured at fair value and their analysis according to the fair value hierarchy:

2019	Level 1	Level 2	Level 3	Total fair value	Book value
Cash and assets held with the central bank	-	2,691,952	-	2,691,952	2,691,952
Loans and receivables from banks and other financial organisations	-	1,002,980	-	1,002,980	1,051,238
Loans and receivables from clients	-	-	16,220,493	16,220,493	13,730,235
Total	**-**	**3,694,932**	**16,220,493**	**19,915,425**	**17,473,425**
Deposits and other liabilities to banks, other financial organisations and central bank	-	3,219,112	-	3,219,112	3,365,323
Deposits and other financial liabilities to clients	-	-	10,129,473	10,129,473	9,667,344
Subordinated liabilities	-	-	1,259,678	1,259,678	1,183,736
Total	**-**	**3,219,112**	**11,389,151**	**14,608,263**	**14,216,403**

2018	Level 1	Level 2	Level 3	Total fair value	Book value
Cash and assets held with the central bank	-	2,496,936	-	2,496,936	2,496,936
Loans and receivables from banks and other financial organisations	-	517,975	-	517,975	598,381
Loans and receivables from clients	-	-	14,724,052	14,724,052	12,439,538
Total	**-**	**3,014,911**	**14,724,052**	**17,738,963**	**15,534,855**
Deposits and other liabilities to banks, other financial organisations and central bank	-	3,664,089	-	3,664,089	3,990,168
Deposits and other financial liabilities to clients	-	-	8,337,184	8,337,184	8,026,858
Subordinated liabilities	-	-	798,373	798,373	711,987
Total	**-**	**3,664,089**	**9,135,557**	**12,799,646**	**12,729,013**

8. FUNCTIONAL SEGMENTS OF THE BANK

Reporting in accordance with IFRS 8 Operating Segments is not applicable to the Bank.

9. NET INTEREST INCOME

Net interest gains relate to:

in RSD thousand	2019	2018
Interest income		
Cash and assets held with central bank	22,856	25,800
Loans and receivables from banks and other financial institutions	8,453	6,986
Securities	-	1,645
Loans and receivables from customers	2,720,585	2,566,191
Total interest income	**2,751,894**	**2,600,622**
Interest expenses		
Deposits from financial institutions	(262,322)	(328,060)
Deposits from customers	(264,980)	(226,573)
Leasing	(4,298)	-
Total interest expenses	**(531,600)**	**(554,633)**
Net interest income	**2,220,294**	**2,045,989**

Interest income in the amount of RSD 5,757 thousand (2018: RSD 6,181 thousand) relates to interest income calculated on impaired loans.

The above amounts include interest income and interest expenses calculated using the effective interest rate method.

10. NET INCOME FROM FEES AND COMMISSIONS

The following table presents a breakdown of income from fees and commissions arising from contracts with customers, based on the most important types of services the Bank provides. Net income from fees and commissions consist of:

in RSD thousand	2019	2018
Income from fees and commissions		
Payment transaction services	15,257	17,197
Loan administration	30,757	29,749
Deposits administration	750	933
Foreign currency business	643	786
Other banking services	697	740
Total income from fees and commissions	**48,104**	**49,405**
Expenses on fees and commissions		
Payment transaction services	(2,615)	(2,364)
Loan administration	(11,736)	(11,886)
Other banking services	(15,635)	(13,762)
Total expenses on fees and commissions	**(29,986)**	**(28,012)**
Net income from fees and commissions	**18,118**	**21,393**

The following table shows information about the nature and moment of liabilities settlement that are stipulated in client contracts, as well as policies on accrual of income.

Product/service	**Type of income**	**Moment of recognition**
Payment transaction services	Payments order	After execution
	Installation of e-banking	After execution
	Account maintenance	Monthly, after the end of the month
Savings and current accounts	Transaction fees and commissions	After execution

11. NET EXCHANGE RATE GAINS AND GAINS FROM AGREED CURRENCY CLAUSES

Net exchange rate gains and gains from agreed currency clauses contain:

In RSD thousand	2019	2018
Foreign exchange gains	97,421	161,711
Foreign exchange losses	(97,127)	(158,727)
Total	**294**	**2,984**

12. OTHER OPERATING INCOME

In RSD thousand	2019	2018
Income from leasing of immovable property	212	298
Gains from the sale of repossessed assets	-	48
Other operating income	-	1,465
Total	**212**	**1,811**

13. NET EXPENSES ON IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

In RSD thousand	2019	2018
Expenses on impairment of loans and receivables from banks and other financial organisations	(7.446)	(34,856)
Expenses on impairment of loans and receivables from clients	(658.908)	(753,007)
Expenses on impairment of other assets	(4.593)	(33,674)
Provision losses from off-balance sheet items	(151)	(855)
Revenue from reversal of impairment of loans and receivables from banks and other financial organizations	11,735	9,367
Revenue from reversal of impairment of loans and receivables from customers	660,168	763,009
Revenue from reversal of impairment of other assets	4,179	57,516
Revenue from reversal of provision for off-balance sheet items	238	727
Loss from the modification of the financial statements	(2,482)	(1,357)
Profit from modification of financial statements	359	530
Write-offs	(55,425)	(139,648)
Revenue from collection of written-off receivables	32,595	35,588
Total	**(19,730)**	**(96,660)**

Changes in impairment and provision accounts in 2019 and 2018 are presented in the following table:

In RSD thousand	2019	2018
Opening balance – 31 December	**309,191**	**279,594**
Effects of first time adoption IFRS9	-	31,875
Opening balance – 1 January	**309,191**	**311,469**
Increase of provisions during the year	671,097	822,392
Release of provisions during the year	(676,320)	(830,619)
Interest income on impaired loans	5,757	6,181
Foreign exchange rate effect	(912)	(233)
Closing balance - 31 December	**308,813**	**309,191**

14. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

In RSD thousand	2019	2018
Salaries and salary compensations	483,840	412,594
Taxes and contributions on salaries	180,437	152,288
Other personal expenses	92,037	74,412
Total	**756,314**	**639,293**

15. OTHER INCOME

In RSD thousand	2019	2018
Release of unused provisions of liabilities	15,038	1,696
Collected insurance compensation	-	308
Collected court costs	1,853	1,311
Profit from previous years	8,544	7,032
Other income	634	1,370
Total	**26,069**	**11,717**

16. OTHER EXPENSES

In RSD thousand	2019	2018
Operating lease expenses	12,871	41,730
Office space expenses	2,812	32,267
Vehicle expenses	3,838	2,197
Other operating lease expenses	6,221	7,266
Premises maintenance and security	26,281	32,065
Advertising, public relation and representation expenses	12,998	10,690
Professional services expenses	121,222	98,596
Management fees	109,533	102,238
Office supplies	7,456	8,036
Communication expenses	20,468	19,349
Other taxes and contributions	122,894	124,787
Insurance fees	161,638	124,037
Fuel expenses	72,191	62,396
Staff training expenses	13,009	15,805
Board expenses	4,388	7,008
Penalties	6	-
Expenses for provisions for liabilities	15,289	4,660
Court taxes	5,181	4,741
Contributions for salaries on behalf of employer	104,198	91,710
Other	55,755	35,730
Total	**865,378**	**783,579**

17. INCOME TAX

A. Current income tax

The main components of income tax are:

In RSD thousand	2019	2018
Current tax expenses	(87,819)	(85,677)
(Loss)/Profit from deferred tax assets and liabilities	7,246	1,283
Total	**(80,573)**	**(84,394)**

B. Tax balance and effective tax rate

For the purpose of determining the legal obligation on the basis of income tax for the period from 1 January to 31 December 2019, the Bank has performed the adjustment of expenses and gains disclosed in the income statement in accordance with the legislative provisions. Accordingly, the tax base was increased by RSD 45,854 thousand (2018: RSD 60,333 thousand).

In RSD thousand	Effective tax rate	2019*	Effective tax rate	2018
Profit before tax		**539,604**		**510,846**
Income tax at the rate of 15%	**15.0%**	**80,941**	15.0%	**76,627**
Tax effects of expense reconciliation – permanent differences	0.2%	934	1.4%	7,100
Tax effects of revenue reconciliation – permanent differences	-0.4%	(2,032)	-1.4%	(7,355)
Tax effects of depreciation differences calculated for tax and statutory reporting – temporary differences	0.5%	2,951	0.0%	192
Tax effects of expenses that will be recognized in subsequent period – temporary differences	0.9%	5,025	-1.1%	(5,597)
Current income tax stated in the income statement	**16.3%**	**87,819**	**14.0%**	**85,677**

* *The Bank's expectation is reflected here, given that 30 June 2020 is the deadline for submitting the tax balance for 2019. The Bank did not carry out a transfer pricing study, but management believes that it will not have materially significant effects on result for 2019, because of the fact that the Bank had not had them so far, or had minimal adjustments on the basis of transactions with related parties, which did not affect the amount of taxable profit, and in 2019 there were no significant changes in the types of services compared to the previous year.*

In accordance with Article 25a of the Corporate Profit Tax Law, the Bank intends to recognize, in equal amounts, over five tax periods the effects of the change in the Accounting Policies resulting from the first time adoption of IFRS 9. More details on deferred tax assets are given in the Note no. 46 F. II

In 2019, the Bank does not have a tax credit based on investments in fixed assets.

The following table presents the origination of deferred tax assets and liabilities and the result of their offset:

	2019			2018		
In RSD thousand	Liabilities	Assets	Net	Liabilities	Assets	Net
Temporary differences	(3,829)	19,426	15,597	(6,609)	5,597	(1,012)
Net deferred tax asset/ liability	**(3,829)**	**19,426**	**15,597**	**(6,609)**	**5,597**	**(1,012)**

Temporary differences, based on which the tax asset has been recognized in the amount of RSD 19,426 thousand as at 31 December 2019 (31 December 2018: RSD 5,597 thousand) refer to:

- provisions under IAS 19 in the amount of RSD 13,301 thousand (2017: RSD 3,379 thousand);
- expenses from impairment of property that will be recognized in the tax period when that property is disposed of without effect in 2019 (2018: RSD 402 thousand);
- expenses related to public revenues and earnings of employees referred to in Article 9, paragraph 2 of the Corporate Profit Tax Law, that are not paid in the tax period in the amount of RSD 931 thousand (2018: RSD 318 thousand); and
- provisions for litigations in the amount of RSD 2,325 thousand (2017: RSD 542 thousand) and the effect of the first time adoption of IFRS 9 in the amount of RSD 2,869 thousand.

Deferred tax liability is recognized on the basis of the higher carrying amount of fixed assets from compared to their tax base in the amount of RSD 3,829 thousand (2018: RSD 6,609 thousand).

C. Changes in deferred tax assets and liabilities:

In RSD thousand	2019	Correction 1.1.2019.	2018
Balance as at 1 January	8,351	(2,295)	(2,295)
Temporary differences effects during the year	7,246	10,646	1,283
Balance as at 31 December	**15,597**	**8,351**	**(1,012)**

18. FINANCIAL ASSETS AND LIABILITIES

A. Classification of financial assets and liabilities

The following table shows the original classification of assets and liabilities:

In RSD thousand	Note	Required by FVTPL	Classification according FVTPL	At amortized cost	Book Value IFRS 9
On 12/31/2019					
Cash and assets held with the central bank	19	-	-	2,691,952	2,691,952
Loans and receivables from banks and other financial organisation	21	-	-	1,051,238	1,051,238
Loans and receivables from clients	22	-	-	13,730,235	13,730,235
Other assets	25	-	-	88,324	88,324
Total Financial Assets		**-**	**-**	**17,561,749**	**17,561,749**
Deposits and other liabilities to banks, other financial organisations and central bank	26	-	-	3,365,323	3,365,323
Deposits and other financial liabilities to clients	27	-	-	9,667,344	9,667,344
Subordinated liabilities	28	-	-	1,183,736	1,183,736
Total Financial Liabilities		-	-	**14,216,403**	**14,216,403**

The Bank has classified financial instruments in classes that are appropriate to the nature and characteristics of those instruments.

In RSD thousand	Note	Required by FVTPL	Classification according FVTPL	At amortized cost	Book Value IFRS 9
On 12/31/2018					
Cash and assets held with the central bank	19	-	-	2,496,936	2,496,936
Loans and receivables from banks and other financial organisation	21	-	-	598,381	598,381
Loans and receivables from clients	22	-	-	12,439,538	12,439,538
Other assets	25	-	-	107,121	107,121
Total Financial Assets		**-**	**-**	**15,641,976**	**15,641,976**
Deposits and other liabilities to banks, other financial organisations and central bank	26	-	-	3,990,168	3,990,168
Deposits and other financial liabilities to clients	27	-	-	8,026,858	8,026,858
Subordinated liabilities	28	-	-	711,987	711,987
Total Financial Assets		-	-	**12,729,013**	**12,729,013**

19. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and balances held with the central bank (details are given in Note No. 40. H):

In RSD thousand	2019	2018
Cash in hand	148,658	173,369
Current account	456,092	388,015
The deposits of surplus liquidity	1,400,000	1,330,000
Obligatory reserve in foreign currency held with Central Bank	687,202	605,552
Balance as at 31 December	**2,691,952**	**2,496,936**

Overview of cash differences in the Statement of Cash Flows, and positions Cash and Assets with the Central Bank in the Balance Sheet as at December 31, 2019:

In RSD thousand	Balance sheet	Cash flows	Difference
Cash in hand	148,658	148,658	-
Current account	456,092	456,092	-
The deposits of surplus liquidity (a)	1,400,000	-	1,400,000
Obligatory reserve in foreign currency held with Central Bank (b)	687,202	-	687,202
Current account with other banks	-	496,202	(496,202)
Total	**2,691,952**	**1,100,952**	**1,591,000**

Cash flows do not include movements between items that make up cash or cash equivalents because these components are part of the entity's cash management, not part of their business, investment and financing activities. Cash management involves investing excess cash in cash equivalents.

In accordance with the Decision on the Banks' Required Reserves with the National Bank of Serbia, the obligatory reserve in dinars is calculated on the basis of the average balance of dinar deposits, received loans and other related liabilities during a one month period and applicable rates of:

- 5% on the portion of the dinar base composed of liabilities maturing in less than two years, or within 730 days,
- 0% on the portion of the dinar base composed of liabilities maturing in over two years, or more than 730 days.

The calculated obligatory reserve in dinars for the accounting period from 18 December 2018 to 17 January 2019 amounted to RSD 402,346 thousand. The National Bank of Serbia pays interest of 0.75% per annum on the average amount of the allocated reserve in dinars.

In accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia, the obligatory reserve in foreign currency is calculated on the basis of the average balance of foreign currency deposits, received loans and other related liabilities during a one month period and applicable rates of:

- 20% on the portion of the foreign currency base composed of liabilities maturing in less than two years or within 730 days,
- 13% on the portion of the foreign currency base composed of liabilities maturing in over two years or more than 730 days,
- 100% on dinar liabilities indexed by foreign currency clause for all maturities.

The calculated obligatory reserve in foreign currency for the accounting period from 18 December 2017 to 17 January 2018 (including the portion in dinars) amounted to EUR 5,455 thousand. The National Bank of Serbia does not pay interest on the average amount of the allocated reserve in foreign currency.

20. SECURITIES

The Bank did not invest in securities.

21. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

Loans and receivables from banks and other financial organizations relate to (Note 40 J):

In RSD thousand	2019	2018
Foreign currency accounts		
Domestic banks	166,989	159,333
Foreign banks	329,214	118,473
Allowance for impairment	(1,130)	(655)
Guarantee deposits with domestic banks	151,646	101,659
Allowance for impairment	(32)	(23)
Other deposits with banks	176,380	27
Allowance for impairment	(34)	-
Loans granted to financial sector	228,203	219,567
Gross loan amount	248,253	244,555
Allowance for impairment	(20,050)	(24,988)
Balance as at 31 December	**1,051,238**	**598,381**

22. LOANS AND RECEIVABLES FROM CLIENTS

Loans to clients represent loans granted to private individuals, entrepreneurs, micro, small and medium-sized enterprises and farmers, and they are measured at amortized cost.

	2019			2018		
In RSD thousand	Gross amount	Allowance for impairment	Book value	Gross amount	Allowance for impairment	Book value
Micro, small and medium-sized enterprises	512,828	(24,863)	487,965	585,583	(52,214)	533,369
Entrepreneurs	3,210,017	(58,691)	3,151,326	2,614,433	(58,820)	2,555,613
Retail	10,277,269	(186,325)	10,090,944	9,505,647	(155,091)	9,350,556
Balance as at 31 December	**14,000,114**	**(269,879)**	**13,730,235**	**12,705,663**	**(266,125)**	**12,439,538**

Loans to private individuals are granted in dinars up to the amount of RSD 400 thousand, with maturity from 12 months up to 95 months with an annual interest rate in the range from 18.95% to 20.95%.

Loans to entrepreneurs, micro, small and medium sized enterprises are granted mostly in dinars with foreign currency clause to the amount up to EUR 25,000 with maturity from 12 up to 60 months with an annual interest rate in the range from 12.95% to 16.95%. Loans that are granted in dinars, up to the amount of RSD 2,9 million have maturities from 12 up to 60 months with annual interest rate from 15.95% up to 19.95%.

Agricultural loans granted in dinars with foreign currency clause up to EUR 20,000 have maturities from 12 up to 60 months and an annual interest rate from 12.95% up to 18.95%. Agricultural loans granted up to RSD 2,4 million RSD have the maturity from 12 up to 60 months and an annual interest rate from 14.95% up to 21.95%.

The Bank does not have loans and receivables that are measured at fair value through the income statement.

23. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include:

In RSD thousand	2019	2018
Lands and buildings	284,880	229,751
IT equipment	52,099	54,340
Leasehold improvements and other equipment	38,839	40,279
Fixed assets under construction	12,227	52,112
Assets with right of use	126,554	-
Balance as at 31 December	**514,599**	**376,482**

Structure of fixed assets in the total amount of RSD 12,227 thousand consists of: purchased computer equipment in the amount of RSD 11,297 thousand, investment in reconstruction of part of the second floor of the office building (premises of the IT sector) in the amount of RSD 473 thousand, advertisements in the amount of RSD 325 thousand and purchased furniture in the amount of RSD 132 thousand (31/12/2018 RSD 52,112 thousand). The activation of these fixed assets will take place during 2020, and the projections for the second half of the first quarter of 2020 are reconstructed. According to management, there is no potential impairment of fixed assets in preparation.

Movements regarding property, plant and equipment during 2019 and 2018:

In RSD thousand	Land and buildings	IT Equipment	Leasehold improvements and other equipment	Fixed assets under construction	Assets with right of use	Total
REVALUATION/COST						
Balance as at 1 January 2019	235,642	133,771	119,731	52,112	109,289	650,545
Acquisition	49,238	15,183	9,971	29,362	45,949	149,703
Activation	-	-	-	(69,248)	-	(69,248)
Disposal	-	(5,148)	(1,982)	-	(5,997)	(13,127)
Balance as at 31 December 2019	**284,880**	**143,806**	**127,720**	**12,227**	**149,241**	**717,873**
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2019	5,891	79,431	79,451	-	-	164,774
Deprecation for the period	(5,891)	17,409	11,149	-	-	46,182
Disposal	-	(5,133)	(1,719)	-	(828)	(7,681)
Balance as at 31 December 2019	**-**	**91,707**	**88,881**	**-**	**22,688**	**203,275**
Carrying value as at 31 December 2019	**284,880**	**52,100**	**38,839**	**12,227**	**126,554**	**514,599**

In RSD thousand	Land and buildings	IT Equipment	Leasehold improvements and other equipment	Fixed assets under construction	Assets with right of use	Total
REVALUATION/COST						
Balance as at 1 January 2018	**235,642**	**101,268**	**116,745**	**4,599**	**-**	**458,254**
Acquisition	-	36,957	13,776	98,246	-	148,979
Activation	-	-	-	(50,733)	-	(50,733)
Disposal	-	(4,454)	(10,790)	-	-	(15,244)
Balance as at 31 December 2018	**235,642**	**133,771**	**119,731**	**52,112**	**-**	**541,256**
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2018	**-**	**70,224**	**76,698**	**-**	**-**	**146,922**
Amortisation for the period	5,891	13,642	12,250	-	-	31,782
Disposal	-	(4,434)	(9,496)	-	-	(13,930)
Balance as at 31 December 2018	**5,891**	**79,431**	**79,451**	**-**	**-**	**164,774**
Carrying value as at 31 December 2018	**229,751**	**54,340**	**40,279**	**52,112**	**-**	**376,482**

In case the Bank does not apply the method of revaluation of real estate, their carrying value as at 31 December 2019 would amount to RSD 175,750 thousand (2018: RSD 137,015 thousand).

The valuation of real estates was performed by an authorized appraiser on 31 December 2019. The market value of real estate is determined by combining a comparative and DCF approach, and in the calculation, the value of construction land, which is expressed in the cost method, is also presented in the calculation.

Assets with right of use

In RSD thousand	Vehicles	Properties	Total
COST			
Balance as at 1 January 2019	**825**	**108,464**	**109,289**
Increase during the year	-	45,949	45,949
Reduction during the year	-	(5,997)	(5,997)
Balance as at 31 December 2019	**825**	**148,416**	**149,241**
ACCUMULATED DEPRECIATION			
Balance as at 1 January 2019	**-**	**-**	**-**
Deprecation	(504)	(23,011)	(23,515)
Contract termination and disposal	-	828	828
Balance as at 31 December 2019	**(504)**	**(22,183)**	**(22,687)**
Net book value as at 31 December 2019	**321**	**126,233**	**126,554**
Net book value as at 1 January 2019	**825**	**108,464**	**109,289**

The amounts recognized in the Income Statement

2019 - Leasing in accordance with IFRS16

In RSD thousand	2019
Interest on leasing liabilities (Note 9)	(4,298)
Short-term leasing expenses (exempted from IFRS 16, Note 16)	(2,812)
Expenses of leasing low value assets, other than short-term low value assets (except IFRS 16, Note 16)	(3,838)
Tax expense - IFRS 16 (Note 16)	(6,221)
Net effects (income) on variable payments and disbursements of eligible assets	172

2018 - Operating leasing in accordance with IAS 17

In RSD thousand	2018
Leasing cost (Note 16)	(41,730)

An amount recognized in cash flows

In RSD thousand	2019
Total cash outflows under IFRS16 Leases	(25,721)

24. INTANGIBLE ASSETS

Intangible assets include (Note no. 40.L):

In RSD thousand	2019	2018
Licences	28,621	26,651
Software	107,390	86,130
Intangible assets under development	39,415	15,409
Balance as at 31 December	**175,426**	**128,190**

The structure of intangible assets under development totalling RSD 39,415 thousand consists of: Thesauri DWH RR DATA MART in the amount of RSD 30,500 thousand and GDPR solution in the amount of RSD 8,915 thousand (31/12/2018 RSD 15,409 thousand). The planned deployment dates for the intangible assets in question are as follows: Thesauri DWH RR DATA MARCH in October 2020, and GDPR Solution in May 2020.

In RSD thousand	Licences	Software	Intangible assets in progress	Total
COST				
Balance as at 1 January 2019	62,058	181,454	15,410	258,922
Acquisitions	7,952	40,536	24,005	72,494
Balance as at 31 December 2019	**70,010**	**221,990**	**39,415**	**331,416**
ACCUMULATED AMORTISATION				
Balance as at 1 January 2019	35,407	95,325	-	130,732
Amortisation for the period	5,982	19,275	-	25,257
Balance as at 31 December 2019	41,389	114,600	-	155,989
Carrying value as at 31 December 2019	**28,621**	**107,390**	**39,415**	**175,426**
COST				
Balance as at 1 January 2018	56,250	160,492	7,678	224,420
Acquisitions	5,808	20,962	7,732	34,502
Balance as at 31 December 2018	**62,058**	**181,454**	**15,410**	**258,922**
ACCUMULATED AMORTISATION				
Balance as at 1 January 2018	29,984	79,014	-	108,998
Amortisation for the period	5,423	16,311	-	21,734
Balance as at 31 December 2018	35,407	95,325	-	130,732
Carrying value as at 31 December 2018	**26,651**	**86,130**	**15,410**	**128,190**

There was no indication of impairment of intangible assets with a finite life as at 31 December 2019 in accordance with the IAS 36 Impairment of Assets.

25. OTHER ASSETS

Other assets refer to:

In RSD thousand	2019	2019
Receivables from fraud	9,238	9,444
Other accruals	21,151	34,288
Repossessed assets	22,046	22,364
Prepaid expenses	17,023	21,707
Receivables from operations	18,720	19,957
Receivables from payment transaction services	10,284	4,552
Other assets	7,341	11,791
Allowance for impairment	(17,479)	(16,982)
Balance as at 31 December	**88,324**	**107,121**

Repossessed assets in the amount of RSD 22,046 thousand (2017: RSD 22,364 thousand) represent property in the form of buildings and land, which were placed as collateral for the Bank's receivables from clients on the basis of granted loans. The Bank is registered as the owner of all real estate that it repossessed through the collection of receivables.

The fair value of the assets acquired through collection is determined by an external, independent appraiser of the relevant qualifications and reflects the fair value of these assets as of December 31, 2019. The comparative method of estimation was used, which in accordance with the Procedure on the procedure for settlement of past due receivables by repossessing collateral by the Bank, recording and treating the funds acquired through the collection of receivables are made for a period of up to 3 years. The determination of the fair value of all assets acquired through collection is classified as Level 3.

26. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL ORGANISATIONS AND CENTRAL BANK

The structure of deposits and other liabilities to banks, other financial organisations and central bank is following:

In RSD thousand	2019	2018
Short-term deposits	75,191	9,853
Long-term deposits	658,461	781,883
Borrowings	2,579,183	3,160,787
Deferred interest payable	64,752	60,534
Accrued charges on borrowings	(12,263)	(22,889)
Balance as at 31 December	**3,365,323**	**3,990,168**

The structure of borrowings is the following:

	Valid conditions as at 31 December 2019			
In RSD thousand	Annual interest rate	Maturity date	2019	2018
EFSE S.A., SICAV-SIF	3M BELIBOR+5.6%	31.05.2020	615,000	615,000
EFSE S.A., SICAV-SIF	6M EURIBOR+5.3%	15.06.2020	167,990	337,699
INTERNATIONAL FINANCE CORPORATION	8.23%	15.12.2020	202,810	405,620
RESPONSABILITY SICAV LUX FINANCIAL INCLUSION FUND	4.30%	27.10.2020	23,519	23,639
RESPONSABILITY SICAV LUX MICRO AND SME FINANCE LEADERS	4.30%	27.10.2020	129,352	130,014
RESPONSABILITY SICAV LUX MICRO AND SME FINANCE DEBT FUND	4.30%	27.10.2020	82,315	82,736
GLS ALTERNATIVE INVESTMENTS	3.75%	23.02.2021	235,186	236,389
INTERNATIONAL FINANCE CORPORATION	4.22%	15.06.2021	299,862	502,327
EFSE S.A., SICAV-SIF	6M EURIBOR + 3.9% min 3.9%	22.03.2024	587,964	590,973
SYMBIOTICS SICAV (LUX) - GLOBAL MICROFINANCE FUND	3.70%	15.05.2021	235,186	236,389
Balance as at 31 December			**2,579,183**	**3,160,787**

27. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

The structure of deposits and other financial liabilities to clients is as follows (Note no. 40.N):

In RSD thousand	2019	2018
Transaction deposits		
Corporate	270,676	253,651
Retail	307,267	314,841
Short-term deposits		
A vista deposits		
Corporate	10	10
Retail	2,359,253	1,682,619
Other short-term deposits		
Corporate	170,928	594,222
Retail	29,177	707,269
Total transaction and short-term deposits	**3,137,311**	**3,552,611**
Long-term deposits		
Corporate	399,301	221,481
Retail	5,840,800	4,005,507
Total long-term deposits	**6,240,101**	**4,226,988**
Accrued non-matured interest	289,932	248,726
based on deposits - corporate	10,787	10,613
based on deposits -retail	279,145	238,113
Pre-paid interest on retail deposits	-	(1,467)
Balance as at 31 December	**9,667,344**	**8,026,858**

The following is an overview of interest rates charged on deposits the Bank collected from clients in 2019:

- current accounts of legal entities in foreign currency at the annual interest rate for EUR of 0.00%;
- current accounts of retail in foreign currency at the annual interest rate for EUR of 0.00%;
- the on-demand savings deposits of retail in foreign currency at the annual interest rate for EUR from 0.10 to 2.00%;
- term savings deposits of retail in foreign currency at the annual interest rate for EUR from 1.00% to 2.50%;
- term deposits of legal entities in foreign currency at the annual interest rate for EUR from 2.00% to 2.50%;
- current accounts of legal entities in domestic currency at the annual interest rate for EUR of 0.00%;
- overnight deposits of legal entities in domestic currency at the annual interest rate for Repo-3.00% to Repo-1.00%;
- term deposits of legal entities in domestic currency at the annual interest rate from 1.25% to 6.00%;
- term deposits of retail customers in domestic currency at the annual interest rate from 4.00% to 6.00%.

28. SUBORDINATED LIABILITIES

As at 31 December 2019, the subordinated liabilities of the Bank consist of:

	Effective terms as at 31 December 2019			
In RSD thousand	Annual interest rate	Maturity date	2019	2018
COOPEST S.A.	6M EURIBOR + 6.0% min 7.5%	28.2.2023	234,113	234,977
Principal			235,186	236,389
Deferred fee			(1,073)	(1,412)
GLS ALTERNATIVE INVESTMENTS	6M EURIBOR + 5.5% min 6.5%	15.11.2023	235,832	236,694
Principal			235,186	236,389
Deferred fee			(1,349)	(1,701)
Accrued not-matured interest			1,996	2,006
TRIODOS SICAV II	7,5%	28.8.2024	119,760	120,158
Principal			117,593	118,195
Deferred fee			(781)	(951)
Accrued not-matured interest			2,948	2,914
TRIODOS CUSTODY B.V.	7,5%	28.8.2024	119,760	120,158
Principal			117,593	118,195
Deferred fee			(781)	(951)
Accrued not-matured interest			2,948	2,914
EUROPEAN INVESTMENT FUND	6M EURIBOR + 4.5% min 4.50%	18.09.2029.	474,271	-
Principal			470,371	-
Deferred fee			(2,273)	-
Accrued not-matured interest			6,174	-
Balance as at 31 December			**1,183,736**	**711,987**

29. PROVISIONS

Provisions in the amount of RSD 104,201 thousand (2018: RSD 72,113thousand) relate to provisions for employee benefits in the amount of RSD 88,675 thousand (2018: RSD 66,141thousand), provisions for guarantee losses in the amount of RSD 25 thousand (2018: RSD 112 thousand) and provisions for litigations against the Bank in the amount of RSD 15, 501 thousand (2017: RSD 5,860 thousand).

As at 31 December 2019, the Bank has no defined employee benefit plans as an option for employee benefits in the form of share-based payments.

Provisions for severance payments are formed by the legal obligation to pay severance payments in the amount of two average monthly gross salaries in the Republic of Serbia and the following applied assumptions: discount rate - the rate of yield on long-term T-bills of the Republic of Serbia of 12.99% and salary growth at an annual rate of 10%. Benefits are discounted in order to determine its present value.

Provisions for employee benefits include long-term provisions for severance pay in case of retirement and long-term provisions according to the plan of payment in order to encourage and retain employees. Provisions for severance pay are formed for the statutory obligation to pay severance pay in the amount of two average monthly gross salaries in the Republic of Serbia and the following assumptions: discount rate - yield rate of long-term Treasury bills of the Republic of Serbia of 12.99% and earnings growth at the annual rate of 10%.

In case of termination of employment, the Bank is obliged to pay an employee who has not used the holiday for the rest of the year in the amount of average salary for the previous 12 months, and in proportion to the number of unused days.

Provisions based on the Retention and Incentive Plan (retention and incentives of the members of the Executive Board) are essentially provisions for bonuses, which will be paid after five years, if the conditions defined by the plan are met. Expenses for provisions recognized in the income statement for 2019 are the present value of future payments. The calculation of present value is based on the assumption that the interest rate (the rate of yield of long-term government bonds in euros is 0.30%), the number of employees and the period of employment (1 years) are constant.

Changes in provisions are as follows:

In RSD thousand	2019	2018
Balance as at 1 January	72,113	48,391
Effects of the first time adoption of new IFRSs	-	(697)
New provisions on the basis of IAS 19 – made during the year	22,678	22,526
IAS 19 provisions – used and released	(144)	(138)
New provisions for liabilities – made during the year	15,289	4,660
Provisions for liabilities – used and released during the year	(5,648)	(2,590)
Reversal of provisions for credit risk off balance sheet items	(87)	(38)
Balance as at 31 December	**104,201**	**72,113**

30. OTHER LIABILITIES

Other liabilities include:

In RSD thousand	2019	2018
Liabilities for tax and contributions	12,111	10,934
Trade payables	13,840	22,791
Deferred income	437	752
Liabilities for received payments	139,208	121,055
Liabilities to employees	32,185	32,721
Leasing	119,073	-
Other liabilities	23,570	17,345
Balance as at 31 December	**340,424**	**205,598**

Liabilities based on received payments in the amount of RSD 139,208 thousand (2018: RSD 121,055 thousand) consist of payments made by clients on the basis of loan instalments due after 31 December.

Liabilities arising from the leasing of real estate and cars carried under IFRS 16 at 31 December 2019 are shown as follows:

In RSD thousand	Current value	Contractual undiscounted cash flows
Minimum leasing payments		
Up to 1 year	19,812	24,067
From 1 to 5 years	67,966	81,999
Over 5 years	31,295	45,969
Balance at December 31	**119,073**	**152,035**

At December 31, 2018, the future minimum lease payments under an operating lease for the planned lease term in accordance with IAS 17:

In RSD thousand	2018 Contractual undiscounted cash flows
Minimum leasing payments	
Up to 1 year	27,261
From 1 to 5 years	67,217
Over 5 years	30,548
Balance at December 31	**125,026**

31. CAPITAL

A. CAPITAL STRUCTURE

The capital structure as at 31 December 2019 contains share capital, share premium, revaluation reserves, reserves from profit, profit for the year and retained earnings.

In RSD thousand	2019	2018
Share capital	1,775,940	1,775,940
Share premium	81,858	81,858
Reserves	1,287,375	707,652
Reserves from profit	1,181,848	619,571
Revaluation reserves	105,527	88,081
Retained earnings	-	135,825
Current year profit	459,031	426,452
Balance as at 31 December	**3,604,204**	**3,127,726**

i. Share Capital

The share capital of the Bank was established through the issuance of ordinary shares in five issuances in the period from the establishment of the Bank in 2007 to 31 December 2019. During 2019 there were no changes in share capital.

On 14 June 2012 the Assembly of the Bank passed the Decision on the third issuance of ordinary shares. Based on this Decision 1,950 ordinary shares were issued, each having the nominal value of RSD 60,000 and with the total nominal value of RSD 117,000 thousand. The third ordinary share issuance was fully subscribed and paid up by OTI Illinois, USA.

The first part of the value of share issuance, in the amount of RSD 114,000 thousand, was paid in on 27 June 2012 while the second part in the amount of RSD 3,000 thousand, was paid in on 2 November 2012.

On 13 November 2012 the Assembly of the Bank passed the Decision on the fourth issuance of ordinary shares. By this it is issued 900 ordinary shares were issued, each having the nominal value of RSD 60,000 and with total nominal value of RSD 54,000 thousand. On 7 December 2012 the fourth ordinary share issuance was fully subscribed by OTI Illinois, USA. OTI Illinois, USA has not paid the full amount but the amount of RSD 24,600 thousand, which includes 440 ordinary shares, while the rest of RSD 29,400 thousand is recorded in the Serbian Business Registers Agency as subscribed unpaid capital. Shares are paid on 30 December 2014.

In February 2015, the fifth issuance of 4,200 shares was announced, which is fully subscribed and partially paid in (4,081 shares) OTI Illinois USA, with conversion of subordinated loans (EUR 2,000 thousand) to share capital in the amount of RSD 244,860 thousand, while 119 shares worth RSD 7,140 thousand were subscribed but not paid as at 31 December 2018.

ii. Share issue premium

Share premium is the result of the difference between the issuance price of shares in amount of RSD 733,758 thousand and the nominal share value of I and II issuance in the amount of RSD 651,900 thousand and amounts to RSD 81,857 thousand.

B. Nature and purpose of reserves

i. Revaluation reserves

Revaluation reserves were created by revaluation of real estate (less losses due to creation of deferred tax liabilities), resulting in the amount of RSD 105,527 thousand.

ii. Profit reserves

At the regular session held on April 24, 2019, the Bank's General Meeting decided to allocate RSD 562,276 thousand from previous years (of which RSD 426,452 thousand from 2018 and RSD 135,825 thousand from 2016) into reserves from profit. Total reserves from profit, together with the amount from the previous period of RSD 619,571 thousand amount to RSD 1,181,848 thousand.

C. Shareholders' Structure

	2019			2018		
In RSD thousand	Number of shares*	Share capital	%	Number of shares*	Share capital	%
Shareholder						
OTI Illinois, USA	29,599	1,775,940	100%	29,599	1,775,940	100%
Balance as at 31 December	**1,775,940**	**100%**	**29,599**	**29,599**	**1,775,940**	**100%**

* *The number of shares represents the paid in shares.*

As at 31 December 2019, the number of shares issued by the Bank is 29,718 ordinary shares (2018: 29,718) in the amount of RSD 1,783,080 thousand. Out of this number of issued shares, 119 shares in the amount of RSD 7,140 thousand are registered as unpaid share capital. All shares are ordinary, with share par value of 60,000 RSD.

Owners of ordinary shares have the right to a dividend published by the Bank's Board of Directors and have the right to vote in the Bank's Assembly on the principle of one share one vote. There were no dividend payments in 2019 and 2018.

32. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2019, the Bank has no transfers of financial assets. In the ordinary course of business, financial assets are fully recognized as loans and receivables from banks and other financial organizations and loans and receivables from customers. During 2019, the Bank did not have repo transactions, loans secured by securities, issuance of securities, securitization operation.

33. CONTINGENT LIABILITIES

A. Court cases

As at 31 December 2019, a total of 1310 court cases were filed against the Bank in the total amount of RSD 101,819 thousand (31 December 2018: RSD 43,752 thousand). Provisions for losses arising from these disputes against the Bank (penalties and lawsuits against the Bank) are based on expert estimates (legal department) to assess their outcomes. If the estimate is that the probability of a loss is greater than 50%, a provision is made in the amount of expected loss (including court costs and default interest), and if the probability is equal to or less than 50%, no provisioning is made.

Management expects cash outflows based on 221 court disputes, so that the amount of formed provisions as at 31 December 2019 based on these disputes equals RSD 15,501 thousand (2018: RSD 5,860 thousand).

B. Off- balance sheet items

In RSD thousand	2019	2018
Risk-weighted items		
Guarantees and other sureties in dinars	5,200	5,930
Total risk-weighted off-balance sheet items, gross	5,200	5,930
Allowance for impairment for off-balance sheet items	(25)	(112)
Total risk-weighted off-balance sheet items, net	**5,175**	**5,818**

Guarantees and other warranties in dinars refer to customs guarantees in the amount of RSD 4,900 thousand (2018: RSD 4,800 thousand), guarantees for proper execution of the transaction and tender guarantee in the amount of RSD 300 thousand (2018: RSD 300 thousand).

34. RELATED PARTY TRANSACTIONS

A. Parent Company

Balance exposure to related parties at the end of the year, together with all income and expenses during the year:

In RSD thousand	2019	2018
BALANCE SHEET		
SEAF SERBIA IMPACT FUND B.V., AMSTERDAM		
Loans and receivables from banks and other financial organizations	242,996	239,369
INCOME STATEMENT		
OPPORTUNITY TRANSFORMATION INVESTMENTS BV - NETHERLANDS		
Interest expenses	-	(51,239)
OPPORTUNITY INTERNATIONAL - OAK BROOK		
Management fees	(109,533)	(102,238)
Other expenses	(1,053)	(1,410)
SEAF SERBIA IMPACT FUND B.V., AMSTERDAM		
Interest income	4,853	2,981
Income from fees and commissions	-	1,180

B. Transactions with the management

In 2019, the Bank paid gross compensation (in the form of short-term employee benefits) to members of the Board of Directors and Executive Board in the amount of RSD 71,694 thousand (2018: RSD 52,513 thousand).

35. RECONCILIATION OF MUTUAL RECEIVABLES AND LIABILITIES

On 30 November 2019, the Bank performed the process of reconciliation of receivables and liabilities with its debtors and creditors. The total number of requests for confirmations sent for loan receivables and guarantees was 8,610.

Out of this number: 1,426 requests for confirmations were returned because of the wrong address of (16,56%), signed - 156 or 1,88% respectively, and 7,025 requests for confirmations or 81,59% are considered confirmed, given that the request for confirmation indicates that if the client does not respond within 8 days, the balance is considered confirmed. The number of returned unconfirmed requests for confirmation is 3 or 0.03%. The amount of non-reconciled receivables of RSD 816 thousand relates to loans receivable.

For liabilities, 114 requests for confirmation were received. 86 are reconciled, 28 are disputed and the amount of disputed liabilities is RSD 243 thousand.

36. SUBSEQUENT EVENTS

There were no significant corrective events after the reporting period date that would require disclosure in the notes to the Bank's 2019 financial statements.

However, the crisis caused by the impact of COVID-19 due to the fact that the circumstances were unknown at 31 December 2019 represents a significant non-adjusting event after the balance sheet date and as such requires disclosure in the Bank's financial statements as at 31 December 2019 and will have an impact on the financial statements of the Bank in future periods.

On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. In order to combat the epidemic within the country, the Government of the Republic of Serbia declared on 15 March 2020 a state of emergency that brought restrictions on population movement. Some types of economic activities that involve gatherings of more people such as restaurants, cafes, gyms, shopping malls, stadiums, theaters are closed.

Also, on 17 March 2020, the National Bank of Serbia adopted the Decision on Temporary Measures for Preserving Financial System Stability (hereinafter: the NBS Decision), adopting a set of measures intended for preserving the stability of the financial sector, including the mandatory offer of a moratorium on loans and leasing payments.

Operational risk

In order to implement this Decision, the Bank has formed a Crisis team, as well as a Moratorium team, with roles and responsibilities defined by the Bank's Executive Board, adopted by the Procedure on Bank Activities in the Process of Implementing Measures and Activities from the Decision on Temporary Measures for Preserving Financial System Stability from 23 March 2020. With this procedure, the Bank arranged the following:

a. Adopted and implemented the Reporting System in terms of the Decision, as follows:
    i. Daily reports of the Crisis team and the Moratorium team – on the activities and daily positions of the Bank, the status and results of measures,
    ii. Weekly reports of the Stakeholder Executive Committee - on the status of the Bank's active and passive positions, and activities carried out,
    iii. Monthly reports of the Executive Board for the National Bank of Serbia - on the activities and measures undertaken in accordance with the Decision, as well as the results of those activities and measures.
b. Adopted and implemented additional relief to allow a grace period of 3-6 months for new loans disbursed during the state of emergency.
c. In accordance with the recommendations of NBS, a system of disbursement for clients older than 65 years that are unable to visit the Bank’s premises due to the restrictions of movement.

In addition, the Bank reviewed the contingency plans, assessed the feasibility and the need to include additional scenarios under the circumstances. The Bank paid particular attention to the assessment and security of the information system and the additional risks that may arise, but also considered the capacities and the possibility of more flexible organization and operation from remote locations (from home).

In order to reduce operational risks in the circumstances, as part of the feasibility analysis and updating of the Continuation Plan, the Bank considered the criticality of the processes and their dependence on the service providers, as well as the critical number of employees. Communication channels have been opened and measures taken and exchanged with service providers to ensure continuity of service delivery.

Credit risk

The NBS Decision provides a delay in repayment of credit obligations (moratorium) and implies that clients who accept the moratorium have no obligation to make payment, either of interest or principal, within the next 90 days.

Payment arrears can be used by companies, entrepreneurs and citizens on the basis of their credit obligations - housing loans, consumer and cash loans, credit cards and overdrafts. It also postpones the implementation of all collection and enforcement procedures and use of court instruments of collection for 90 days or during the state of emergency.

Receivables from borrowers who have been granted relief and which, at the moment of coming info force of the NBS Decision were not past due over 90 days, shall not be considered forborne or non-performing receivables or non-performing loans within the meaning of the National Bank of Serbia's regulations, i.e. they shall not be considered to be in default.

The outbreak of a pandemic is not considered a corrective event and will not have a significant impact on the measurement of expected credit losses as at December 31, 2019. The economic difficulties of the clients and the negative economic outlook in general that will arise as a result of the COVID-19 pandemic and their impact on increasing the credit risk and expected credit losses of the Bank on this basis, due to the existence of significant uncertainty cannot be adequately estimated at this time. More information will be available for reporting dates after 31 December 2019, which the Bank will be able to take into account in order to make feasible a reliable quantitative estimate. The Bank will give priority to individual estimates of the likelihood of debtors' default and credit losses relative to group losses, whenever possible.

The Bank's management expects the size of the loan portfolio to be crisis-resilient, given the Bank's average loan amount, which may be below market average.

The Bank has a qualitative analysis of the impact of COVID-19 in relation to the Bank's existing debtors structure and the expected credit risk it may cause The structure of the Bank's credit portfolio consists of agricultural holdings (42% of the principal of the loan portfolio), pensioners (28%), entrepreneurs (23%), legal entities (3%), employees (2%) and investment funds investing in SME capital in Serbia (2%).

The general assumption is that food and raw food ingredients business activities will not have significant liquidity problems. Mixed-income agricultural holdings where income significantly derives from pensions will suffer the least financial impact, while those with additional income from private sector employees may be expected to have a late payment. Farmers who are predominantly husbandmen and cattlemen will experience less negative economic impact of the state of emergency.

The management assumed the impact of the state of emergency on the most important entrepreneurial activities that are dealt with by the Bank's clients. Most repayment problems are expected in business areas that involve gathering people or frequent physical interactions. Some areas will be indirectly affected, such as transportation of people and goods. However, management's expectation is that most entrepreneurs will return to normal business after the state of emergency. However, restaurateurs and certain service industries will have difficulty for a longer period after the crisis.

Pensioners are the least economically affected group and without the expected negative effects. On the other hand, health risks are significant, however, the Bank's receivables from pensioners are covered by insurance and this risk is transferred to insurance companies.

Liquidity risk

Following the declaration of a state of emergency, the Bank has taken steps to maintain the optimum level of liquid assets. The potential risk of withdrawal of deposits in a volume larger than expected was identified. In order to maintain financial stability and critical functions, the Bank has undertaken increased monitoring of changes in deposits on a daily basis. The Bank's governing bodies manage the process of providing liquidity. Stress scenario were created and exit strategies were made.

Also, the NBS Decision has a direct impact on the Bank's liquid assets and may cause structural liquidity risk. The liquidity risk management strategy is aimed at further maintaining high liquidity by taking measures from reducing the lending plan during the moratorium, with the principle of maintaining lending to the Bank's critical functions, negotiating new borrowings with existing lenders, new corporate clients, and reducing operating expenses in according to the needs of the business.

The Bank performed stress tests on liquidity assuming the application of the measure from the NBS Decision for three months with the expected payment of 10% of the amount foreseen by the loan repayment plan and the outflow of 5% of deposits during the same period under conditions of stable exchange rate, payment of all due obligations, expected payment from 60% of the amount foreseen by the loan repayment plan in the first month after the expiry of the moratorium and then 95% of the loan repayment by the end of the year: The Bank considers that with the above assumptions and with application of the reduced credit plan during the moratorium period and after the termination of the same but also reduced operating costs, earlier realization of withdrawal of contracted loans foreseen by the Financing Plan and implementation of the measure to continue its operations unhindered in accordance with the established appetite of the Bank.

Market risks

Considering the forms and magnitudes of disruptions that can be expected in the foreign exchange market due to the new situation, the Bank's management expects that the relatively small amount of the open foreign exchange position and the Bank's policy to maintain it below 3% of the regulatory capital will provide the Bank with a safe continuation of operations both during the extraordinary period circumstances after their termination. Stress foreign exchange risk tests based on a hypothetical 20% exchange rate fluctuation are indicators that they would not be able to make a significant impairment of capital and profits (Note 6.C.III).

The Bank has qualitatively analyzed the possible impact of the COVID-19 epidemic on the eventual decline in the capital market and the expected interest rate risk it may cause. In the structure of the Bank's placements, loans with variable interest rates have very low share,1.56%, while in the structure of sources of financing this percentage is 1.64%. As the Bank's strategic commitment is to continue to make loans to fixed-rate clients, the Bank's management assumes that there is no significant exposure to the risks of potential key interest rate distortions. Stress interest rate risk tests based on a hypothetical 200 bps interest rate fluctuation have shown that such a disturbance would not significantly impair the Bank's capital and profits (Note 6.C.II).

Capital adequacy

The Bank estimated that the impact of the COVID-19 epidemic on capital adequacy in the current year would not be materially significant, given all of the foregoing. The planned growth of regulatory capital based on the allocation of 100% profit from 2019 to the position Profit reserves, other reserves and reserves for general banking risks will be realized in accordance with the established deadlines, deviations will be in the part attributable to reducing the risk weighted credit risk exposure, which will not have negative implications on capital adequacy ratios.

As part of its internal capital adequacy assessment, the Bank has conducted capital and capital adequacy tests that could reflect the Bank's ability to withstand the effects of the COVID-19 epidemic. For the purposes of credit risk stress testing, it was considered to increase the level of troubled loans by 100% and to reduce the repayment delay by level 2 from 30 to 15 days, and by level 3 from 90 to 45 days. An increase of 18.61% of the euro exchange rate was observed, as well as the effect of mortgage inadequacy on commercial and residential real estate. The possible underestimation of the capital requirement for foreign exchange risk calculated on the basis of a standardized approach was estimated using the VaR model, while the shock and stress test for interest rate risk were based on 6 scenarios of change in the yield curve (parallel shift of the yield curve by +/- 200 bp, additional 60 bp in the stress conditions, steepening, flattening, short-term shocks). Withdrawing 10% of deposits in dinars and euros, as well as a reduced inflow due to a doubled level of problem loans, were prerequisites for stress testing for liquidity risk and the additional capital cost of obtaining the missing liquidity was estimated. The Bank reviewed the possible underestimation of the capital requirement for operational risk calculated using the baseline Indicator Approach (BIA) by comparing it with the Basel IV Standardized Approach and Losses that would arise under stress circumstances, but concluded that already allocated capital is in line with the BIA more conservative, in both regular and stress circumstances.

The results of the internal capital adequacy assessment showed that the assumed stress circumstances would not endanger capital and the capital adequacy of the Bank.

37. RISK MANAGEMENT

A. Introduction and overview

The Bank is exposed to the following risks:

- credit risk,
- liquidity risk,
- market risk,
- operational risk and
- country risk.

This note presents information about the Bank’s exposure to each of the risks mentioned, the Bank’s objectives, policies and processes for measuring and managing risks, and the Bank’s capital management.

i. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Board of Directors has established the Risk Management Board to evaluate risk management reporting by the line management, and advises the Executive Board on remedial or further action to reduce negative risk exposure levels.

Responsibility for implementation and effectiveness of risk management rests with the Risk Management Board. Responsibility for identifying risk and the day-to-day management of risk lies within line management. In addition to the Risk Management Board, certain risk indicators are reviewed by the Assets & Liabilities Board (ALCO) and Credit Board.

Where necessary the chairman of each Board will report information and issues to the Risk management Board.

The Bank’s risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Board also amends or introduces new risk management procedures. The Executive Board decides upon the necessary course of action and passes on its recommendations to the Board of Directors for approval. Where existing policy has been amended or new policy introduced, it is approved by the Board of Directors prior to its introduction.

The Bank's Internal Audit monitors compliance with the Bank's risks management policies and procedures and undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Internal Audit Committee.

B. Credit risk

Credit risk is the risk of financial loss occurring as a result of counterpart default regarding its contractual obligations to the Bank and arises principally from the Bank's loans and receivables.

Responsibility for credit risk strategy and approval of credit policies and procedures rests with the Board of Directors.

Responsibility for application of the Bank credit policy and adopted credit risk procedures rests with the Executive Board and Chairman of the Executive Board. All employees involved in lending activities are acquainted with the content of policies and procedures that cover their area of responsibility.

The Risk Management Sector is responsible for a regular update of the Credit Policy and procedures which are its integral part. Chief Development Officer, with support of Branch Managers, is responsible for the implementation of approved policies and procedures. Independent controls are performed by the Internal Auditor, who assesses the lending activities and observance of policies and procedures.

The Bank manages credit risk through Monthly Credit Risk Reports which contain:

— delinquency reports by Client Adviser's, branch and the overall Bank,
— balance of loan portfolio at the end of the month by product, gender, sector, geographic location, maturity analysis, disbursals by loan size, job impact to data and total loans to date,
— delinquency by product,
— delinquency trend.

The Bank has developed specific models for assessment of credit risk and monitoring and collection of disbursed loans. The models known as "roll rates" and "vintage" allow the Bank to monitor the loans in terms of:

— control of collection based on the month of disbursement, immediately after the first instalment becomes due. Based on received information, the Bank can make a decision to change the business strategy i.e. to offer some specific type of loan;
— establishing the attitude of clients during loan repayment (in terms of identifying the clients who are constantly in delinquency, clients who have improved their position and clients whose position has deteriorated as compared to the previous month).

The Bank's exposure to credit risk arises through its loans and receivables. The amount of credit exposure in this regard is represented by the book value of the assets on the statement of financial position.

In order to manage the level of credit risk, the Bank:

- reviews the creditworthiness of customers applying for loans, guarantees and other credit products,
- establishes credit limits on the basis of the risk assessment,
- deals with counterparties of good credit standing and takes appropriate collateral.

Customers are monitored continually and risk limits are adjusted if necessary. Risk limits also take into account various collateral types.

The Bank's exposure to credit risk arises through its loans and receivables. The amount of credit exposure in this regard is represented by the book value of the assets on the statement of financial position.

In order to identify, monitor and assess them and, above all, to prevent such risk from originating, the Bank has brought and adopted the following official documents:

- credit risk policy and procedure,
- procedure for securing loans,
- a non performing asset management procedure,
- the methodology for calculating the allowance for impairment in accordance with IFRS 9,
- procedure for classification of balance sheet assets and off-balance sheet items of the Bank in accordance with the valid NBS Decision.

All these documents were all brought to the effect of preventive actions regarding credit risk, through defining the following:

- approval of a loan, including risk assessment of a customer,
- monitoring,
- loan portfolio analysis, loss prevention and collection procedures, and
- classification of given loans and creation of allowance for impairment for estimated loan losses.

The core of risk management activities and mitigation of credit risk is detailed analysis of the creditworthiness of customers applying for loans and receivables and evaluation of provided collateral.

Credit analysis considers qualitative and quantitative analysis. Ownership structure, history of the company, market position, management competence, competition, cooperation with main buyers and suppliers, prospective of the business, customer's timeliness in loan repayment are the main factors that qualitative analysis consists of. It also consists of industry comparison. Quantitative analysis is based on customer's solvency and profitability based on analysis of its financial statements.

Bank policy is to mitigate risks by diversifying its portfolio to different business.

The Risk Management Board assesses the risk of loan approvals for certain sectors. In order to control the credit risk exposure regarding various business sectors and to provide a risk diversification, the Board of Directors passed a Decision on investment limitations to individual sectors up to 35%. Total agriculture sector, together with mixed clients must not exceed 65% relative to the entire portfolio and total mixed sector of customers, together with the retail sector also must not exceed 65% relative to the entire portfolio.

Through monthly Portfolio report and monthly report on risk management, credit exposure by sectors is being monitored for the subsectors: farming, dairy farming, pig breeding, cattle fattening, poultry raising, fruit growing, truck farming, other agricultural production (agro sector), other agro-rural production (agro-rural sector), manufacturing, construction, trade, services (business sector), pensioners and employees (retail).

The Bank also monitors the credit risk exposure regarding certain types of loans through monthly reports. The exposure is being monitored in relation to all types of loans which are being granted by the Bank. The Report shows delinquency by products separately for RSD and for EUR linked loans.

In addition, the National Bank of Serbia has some restrictions regarding total amount of loans and receivables to one client or the group or related clients:

- the total amount of loans and receivables, including off-balance sheet items, which relate to one client or the group of related clients should not exceed 25% of the Bank's capital;
- exposure to one client or a group of related clients that exceeds 10% of Tier 1 capital is considered as large exposure. It is prescribed by the National Bank of Serbia that the sum of large exposures and exposures to related parties cannot exceed 400% of the Bank's capital; and
- equity investment in an entity outside of finance sector should not exceed 10% of the Bank's capital and total equity investments in entities outside of the finance sector should not exceed 60% of the Bank's capital.

Business Loans

Approval up to EUR 10 thousand is delegated to one person with the appropriate authorization right (directors of business lines, branch directors or associates in the credit risk department), while loans up to EUR 20 thousand are delegated to the sub-committee in the Head Office.

Approval between EUR 20 thousand and EUR 50 thousand is delegated to Head Office Credit Board 1, while approval between EUR 50 thousand and EUR 200 thousand is delegated to Head Office Credit Board 2

Approval over EUR 200 thousand is delegated to the Head Office Credit Board 2. Also, the loan must be approved by at least four more members of the Board of Directors.

Agro Loans

Approval of up to EUR 10 thousand is delegated to one person with the appropriate authorization right (directors of business lines, branch directors or associates in the credit risk department), while loans up to EUR 20 thousand are delegated to the sub-committee in the Head Office.

Approval between EUR 20 thousand and EUR 50 thousand is delegated to Head Office Credit Board 1. Approval between EUR 50 thousand and EUR 200 thousand is delegated to Head Office Credit Board 2.

Approval over EUR 200 thousand is delegated to the Head Office Credit Board 2. Also, the loan must be approved by at least four more members of the Board of Directors.

Retail Loans

Approval is delegated to one person with the appropriate authorization right (exclusively associates in the credit risk department), or based on the scoring model.

C. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its due liabilities. It arises from the mismatch between cash inflows and outflows (structural liquidity risk) or the inability to sell / convert financial instruments into cash in an acceptable period and at an adequate price (financial instruments liquidity risk). The Bank manages its assets and liabilities so as to ensure that it is able to fulfil all outstanding obligations at all times and that its clients can access their assets in accordance to the agreed deadlines without limitation.

The Assets-Liability Committee (ALCO) is responsible for monitoring the liquidity risk, managing the liquidity risk, and proposing measures and activities for maintaining liquidity, adjusting the maturity structure, a business plan in the event of a liquidity crisis and other measures significant for the financial stability of the Bank to the Executive Board. The Chairman of the Risk Management Committee is also a member of the ALCO.

The Bank approaches liquidity management with the intent to provide, as far as possible, an adequate balance of liquid assets that is sufficient to always meet its outstanding obligations under normal conditions and in the liquidity crisis without causing unacceptably high losses or negative impact on the reputation of the bank. Accordingly, the Bank strives to constantly maintain a diversified base of financing sources consisting of deposits from individuals and legal entities, short-term borrowings on the interbank market and long-term loans from international banks and other financial institutions. The Bank also monitors the currency and manual compliance of the expected cash flows and the behavior of clients in certain market circumstances. Continuous testing is conducted on the potential liquidity crisis that may be caused by macroeconomic, market or internal disorders.

D. Market Risks

Market risk is the risk of a change in the balance sheet position of the Bank due to a negative impact of changed market rates or values such as interest rates, exchange rate differences, securities prices, and the outcome is the loss of earnings and capital.

The objective of managing market risk is to manage and control exposure to market risks within limits that are considered acceptable from the aspect of risk appetite and business strategy of the Bank.

i. Interest Rate Risk

Interest rate risk arises due to the possibility that changes in interest rates may affect future cash flows or the fair value of financial instruments. The Bank is exposed to changes in the level of market interest rates which can result in a significant impact on its financial position and cash flows through an increase or decrease of interest margins.

The purpose of managing interest rate risk as a segment of assets and liabilities management is to optimize the amount of net interest income, maintain a market interest rate at a level that is consistent and in line with the Bank's business strategy.

In addition, the Bank is focused on interest rate spreads. The Bank is aware that the interest rate variability of the so-called "interest spread" is a potential indicator of interest rate risk. This spread is regulated by the price of the loan, the price of the deposits and the activities in the money market. The Bank endeavors to have neither the lowest nor the highest interest rates on the market for loans and deposits. The loan prices are determined to achieve a fair return on the owner's investment. Deposit prices provide fair treatment for the Bank's clients and are reasonably competitive without increasing the costs for the Bank.

The Board of Directors has established the interest rate risk exposure limits based on the valid regulations of the National Bank of Serbia and the internal methodologies that follow the level of exposure of the Bank's balance sheet positions to possible unfavorable movements in rates on the market.

The Assets and Liabilities Management Committee, based on macroeconomic analysis and forecasting, the business plan, forecasts of conditions for achieving liquidity and analysis and forecasts market interest rate trends, undertakes activities aimed at:

- adequate determination of the net interest margin from the aspect of the impact on the Bank's current financial position and the adequacy of the Bank's capital level;
- aligning the characteristics of interest-sensitive assets and liabilities in terms of the level of interest rates with the same maturity and the time interval within which the interest rate is re-determined;
- ensuring maturity compliance of interest-sensitive assets and liabilities for which the fixed interest rate has been determined, and
- ensuring compliance of time limits for re-determination of interest rates in case of variable interest rates;

The finance sector monitors and reports the risk of maturity mismatch and the re-establishment of prices or the analysis of disparities on a monthly basis to the Asset-Liability Committee (ALCO). Quarterly reports are presented to the members of the Managing Board through the ALM committee.

In managing interest rate risk, the Bank uses a simulation of expected and extreme interest rate changes and projects the impact of those rates on the income statement. The risk of interest rates is also monitored by the analysis of the sensitivity - scenario analysis.

When preparing the report for measuring interest rate risk, the Bank takes into account all positions in assets, liabilities and off-balance sheet items, as well as all other remunerations and expenses that are exposed to interest rate risk. Fixed interest rate instruments are deployed in time baskets by the remaining maturity. Variable interest rate instruments are placed in time baskets according to the remaining time to the change in the interest rate. Positions with built-in options are arranged according to contractual maturity, modelled by the impact of early repayment of loans and early withdrawal of deposits in different scenarios of rising or falling interest rates. Positions without contractual maturity are included in time baskets according to the Bank's internal models for converting balance sheet items into cash flows based on historical series analysis and projecting their results for future periods that are likely to retain certain types of products in the Bank.

Gap analysis is used to measure the risk of net interest income arising due to the reassessment of prices of assets and liabilities over time. This analysis includes the effects of the time maturity mismatch of the base rates, as well as the potential risks arising from the options embodied in the contracts. The risk is measured based on the size and duration of potential changes in interest rates. The Bank is aware that maintaining a synchronized position throughout the entire period in the GAP reports does not provide for interest rate risk. The Bank is aware of the following limits in the gap reporting:

— the risk can be hidden within the re-establishment of prices;
— interest rates on assets and liabilities are not always changed together;
— exposure arises through new jobs.

In order to avoid this type of limitation, the Bank uses a simulation (assumptions) for the purpose of designing the future balance sheet structure and applying different interest rate scenarios.

In light of the current reform of the benchmark interest rates, the Bank is monitoring its exposure to potential impact, and this change in its operating result is ready to respond in order to minimize any adverse effects.

ii. Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Foreign currency risk arises in cases of mismatch in assets and liabilities denominated in foreign currencies. The Bank is potentially at risk through its foreign currency position by granting and taking loans with foreign currency clauses, maintaining funds with correspondent banks, undertaking international payment orders, offering foreign currency accounts, and operating an exchange till.

The Bank's foreign exchange risk management strategy does not allow the holding of significant open positions in different currencies. ALCO is a committee that monitors compliance with this requirement.

E. Operational risks

Operational risk is the risk of the possibility of adverse effects on the financial results and capital of the Bank due to employees' failures, inadequate internal procedures and processes, inadequate management of information and other systems, as well as unpredictable external events. Operational risk includes legal risk.

The objective of managing the Bank's operational risk is to minimize operating risk losses with an acceptable level of exposure to the operational risk. The Bank manages operational risk at an individual organizational work level and at the Bank's level. The assessment of the operational and risk of the information system at the Bank's level is a comprehensive process that rounds up the monitoring of operational risk of the Bank.

The operational risk management system involves the definition of policies and procedures that the Bank should provide:

1. The operational risk management system involves the definition of policies and procedures that the Bank should provide: Defined competencies and responsibilities in the process of taking over activities and managing operational risk, which includes an adequate division of competencies and an assessment of the effectiveness of the internal control system;
2. Periodic risk assessment and system of reporting and information on operational risk.

The Executive Board of the Bank is responsible for implementing the Operational Risk Management Policy adopted by the Board of Directors and managing the policy with the adopted Operational Risk Management Procedure. The Executive Board of the Bank, at least once during the business quarter, analyzes the efficiency in the implementation of established procedures for managing the operational risk the Bank is exposed to and reports on it to the Board of Directors.

The Risk Division is responsible for the operational implementation of the Policy and Procedures of managing the operational and information system risk. The Risk Division identifies, measures and monitors and manages operational risk both at the level of individual organizational unit and at the Bank's level, and at least once a month reports on the Risk Management Committee to the Executive Board of the Bank, i.e. quarterly on the Risk Management Committee to the Management Board.

The managers of all organizational parts of the Bank are responsible for assessing the operational risk to the level of their competence, as well as implementing measures to reduce / eliminate operational risk. All employees are responsible for the occurrence of operational risk and in accordance with their powers and responsibilities are in charge of managing operational risk.

The Bank has determined that the capital requirement for operational risk is calculated using the access to the basic indicator for calculating capital adequacy for operational risk (BIA).

For the purpose of recording operational risk events, the Bank has established the Database (losses) of operational risk in the main information system. This database serves as a basis for statistical processing - analysis, and reporting on operational risks.

Through the adopted policies and procedures, the Bank's operational risk management system has been defined with four basic phases:

1. Identification of existing sources of operational risk and sources of operational risk that may arise from the introduction of new systems, business products or activities;
2. Measurement of operational risk, accurate and timely defined risk assessment;
3. Operational risk treatment, maintaining that risk at a level acceptable to the risk profile of the Bank, mitigating and / or mitigating consequences, transferring, dividing or avoiding risks;
4. Control and monitoring of operational risk through monitoring of the implementation of decisions, analysis of the situation, changes and trends of risk exposure.

F. Country risk

Country risk is the probability of incurring losses to the Bank due to the inability of persons or companies outside of Serbia to repay obligations due to political, social and economic environment of the country of the client. Risks include:

- political-economic risk, where loss is probably due to political restrictions created by the acts of the country, state bodies or other bodies in the country of the client, and/or because of the general economic condition in the country.,
- transfer risk, where probability of loss due to currency restrictions created by the acts of the country, state bodies or other bodies in the country of the client, and/or because of the general economic condition in the country.

The Bank has established limits of exposure per client’s country of origin. In case of identified risk concentration the limits have been established per geographical regions.

The following table summarizes adopted limits per country of origin:

Country	Limit (EUR)	Country	Limit (EUR)
Germany	12,000,000	United Kingdom	6,000,000
Netherlands	6,000,000	Switzerland	6,000,000
USA	6,000,000	Belgium	3,000,000
Austria	6,000,000	Hungary	3,000,000
Luxembourg	6,000,000	France	6,000,000
Italy	5,000,000	Slovenia	3,000,000
Montenegro	3,000,000		

For all other countries (Norway, EU Member States and CEFTA members) for which no individual limit has been set, a maximum exposure of EUR 0.1 million is allowed.

The Market Risk, ICAAP and Portfolio Management Department monitors this risk and reports monthly to the Bank's Risk Management Committee and quarterly to the Board. The Board of Directors assesses the adequacy of the country's risk management system and approves any changes that are necessary to that end.

38. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Liabilities arising from financing activities are liabilities for which cash flows are classified in the Statement of Cash Flows as cash flows from financing activities. The following presents the adjustment of changes in liabilities and equity with cash flows:

	Loans taken	Subordinated liabilities	Leasing obligations	Share capital	Reserves	Other*	Total
Balance as at 1 January 2018	**2,645,246**	**1,203,198**	**-**	**1,857,798**	**354,634**	**488,911***	**6,549,786**
Loans taken	1,565,046	-	-	-	-	-	1,565,046
Repaid loans	(1,047,047)	(473,440)	-	-	-	-	(1,520,487)
Total change due to cash flows	517,999	(473,440)	-	-	-	-	44,559
The effect of the exchange rate	(2,457)	(2,119)	-	-	-	-	(4,576)
Other changes							
Interest expense	186,468	102,243	-	-	-	-	288,711
Payed fees	(171,154)	(119,218)	-	-	-	-	(290,372)
Distribution of profit	-	-	-	-	353,087	(353,087)	-
Other changes	-	-	-	-	(69)	426,452	426,383
Balance as at 31 December 2018	**3,176,102**	**710,664**	**-**	**1,857,798**	**707,651**	**562,276**	**7,014,491**
Balance as at 1 January 2019	**3,176,102**	**710,664**	**109,289**	**1,857,798**	**707,651**	**562,276**	**7,123,780**
Loans taken	-	470,371	-	-	-	-	470,371
Repaid loans	(571,110)	-	-	-	-	-	(571,110)
Lease liabilities paid	-	-	(25,721)	-	-	-	(25,721)
Total change due to cash flows	(571,110)	470,371	(25,721)	-	-	-	(126,460)
The effect of the exchange rate	(10,494)	(3,666)	-	-	-	-	(14,160)
Other changes							
Interest expense	167,475	57,139	-	-	-	-	224,614
Payed fees	(159,993)	(59,928)	-	-	-	-	(219,921)
Distribution of profit	-	-	-	-	562,276	(562,276)	-
Other changes	-	-	-	-	17,446	459,031	476,477
Balance as at 31 December 2019	**2,601,980**	**1,174,580**	**83,568**	**1,857,798**	**1,287,374**	**459,031**	**7,464,331**

* *Profit for the current period.*

Change in the opening balance as at 1 January 2019 relates to the recording of the effects of the first time adoption of IFRS 9.

39. BASIS OF MEASUREMENT

The financial statements are prepared based on the historical cost principle except for the following items in the balance sheet:

- Property that is subsequently measured using a revaluation method.
- Provisions that are measured using the estimate of future outflows.

The preparation and presentation of financial statements requires the Bank to use the best possible estimates and reasonable assumptions that have an impact on the disclosed values of assets and liabilities. Estimates and assumptions are examined on a continuous basis and are based on information available on the date of compiling financial statements, historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. Since the actual results may differ from those estimates, they are continually considered, and if corrections become necessary, they are carried out in the period in which the estimates are audited and in each future period in which they will arise.

40. SIGNIFICANT ACCOUNTING POLICIES

A. Basis for consolidation

The Bank does not have control over any entity and does not prepare consolidated financial statements. The Bank does not hold minority interests in other legal entities as at 31 December 2019.

B. Foreign currency

Transactions in foreign currencies are translated into Serbian Dinars at the spot exchange rates at the date of the transaction.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the middle exchange rate prevailing at the reporting date. Foreign exchange gains or losses arising on translation of foreign currency transactions or the translation of foreign currency balance sheet items that are derived from foreign exchange translation are accounted for as income or expense from foreign exchange differences under the heading "Net income / expense from exchange differences and effects" contracted currency clauses in the income statement.

Exchange rates determined at the middle exchange rate of the National Bank of Serbia used to translate positions in the financial statements presented in foreign currency at 31 December 2019 and at 31 December 2018 are as follows:

Currency	2019	2018
USD	104.9186	103.3893
CHF	108.4004	104.9779
EUR	117.5928	118.1946

Foreign exchange gains or losses arising from the translation of balance sheet items denominated in foreign currency and in foreign currency transactions are recorded in favor of or at the expense of the profit and loss account as income and expense on the basis of exchange rate differences and are presented within the net foreign exchange gains position and effects of the contractual currency clause.

C. Interest

Interest income and expenses are recognised in the income statement using the effective interest method. The effective interest rate discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or shorter period when appropriate) to the book value 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 (for example, the ability to pay in advance), but not future loan losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all transaction costs and premiums and discounts paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit and loss include income on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

In the moment of loan approval, a fee is being charged calculated on the basis of direct cost of loan origination. 50% of the fee is recognized as income at the time of the fee calculation and 50% is deferred and depreciated as income throughout the loan term. The exceptions are fees for approval of retail loans which are recognized as income, 75% at the time of calculation, with the remaining 25% being deferred and recognized as income throughout the loan term. These fee are recognized within the interest income and the management believes that the difference between this method of calculation and the effective interest rate method is not materially significant. From 1/1/2020 the percentage schedule for recognizing loan approval fees will be abolished in accordance with the change in accounting policy.

When a financial asset or a group of similar financial assets are written-off as a result of a loss due to decreased value, the interest income is calculated on amortized cost of impaired placement by using the initial effective interest rate, which was used for discounting future cash flows in order to measure the loss from a decreased value.

Interest expense as disclosed in the income statement consists of interest on financial liabilities that are measured at amortized cost.

D. Fees income and expenses

The Bank has identified, as types of revenue that it generates in its ordinary course of business, IFRS 15, which are not within IFRS 9, fees for executing payment orders, fees for e-banking installations, account maintenance, and sales revenues assets acquired through the collection and sale of fixed assets. For this income, which falls under the scope of IFRS 15, the Bank has performed analysis in five steps and noted that it collects and presents income at the time of settlement of liabilities. Account maintenance fees are charged after the expiration of the month in which the account was used on the contracted scope. When selling fixed assets and assets acquired through foreclosure, the Bank charges the purchase price defined by the contract at the time of the transfer of the property right to the buyer which is deemed to be a fulfilment of the contractual obligation.

A contract with the customer resulting in recognition of financial instrument in Bank's financial statements can be partially under the scope of IFRS 9 and partially under the scope of IFRS 15. When this is a case, the Bank firstly applies IFRS 9 in order to separate and measure the part of the contract under IFRS 9, and then applies IFRS 15 to the other part of the contract.

In its offer, the Bank does not have card products, nor any other type of complex products (packages) that would require separation of recognition in the terms of IFRS 15.

E. Leases

The Bank has first implemented IFRS 16 *Leases* as at 1 January 2019. Details of the implementation of the standard are presented in Item 5 B in the Prevention of Changes in the Bank's Basic Accounting Policies. Until 1 January 2019, the Bank presented lease liabilities in accordance with the previous standard IAS 17 as operating lease expense in the income statement.

F. Profit tax

Profit tax represents an amount that is calculated and paid in accordance with the Corporate Profit Tax Law of the Republic of Serbia („Official Gazette RS“, no. 25/01, 80/02, 80/02-other law, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13, 68/14- other law, 142/14, 91/15, 112/2015, 113/2017, 95/2018 and 86/2019).

i. Current tax liabilities

During the year, the Bank has been paying profit tax by monthly advances, which amount is determined based on tax return for the previous year. Final tax base for applying of tax rate on corporate profit of 15% (2018: 15%), is determined based on the tax balance of the Bank.

Taxable profit includes accounting profit presented in the statement of profit and loss and adjustment for permanent differences, in accordance with the Corporate Profit Tax Law of the Republic Serbia. These adjustments mainly include costs unrecognized and recognition of some costs reversal and reduction of capital expenditures and investments during the year.

ii. Deferred tax income

Deferred income tax is provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carry forward can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets and liabilities as at 31st of December 2019 are calculated at a currently valid rate of 15% (2018: 15%).

iii. Other taxes and contributions not dependent on result

Other taxes and contributions not depending on the result include property tax, VAT, contribution on salaries charged by the employer, as well as other taxes and contributions paid in accordance with Republic and local tax regulations. These taxes and contributions are presented within other expenses (Note 16).

G. Financial assets and liabilities

i. Initial recognition

The Bank initially recognizes loans and receivables, deposits, borrowings and subordinated liabilities on acquisition date. Settlement date is considered to be the contractual date of the financial asset or liability. Purchases or sales of financial assets are recognized on the settlement date, i.e. date on which the asset is delivered to the counterparty.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to acquisition or issue of financial assets and financial liabilities, except in the case when assets and liabilities measured at fair value through profit and loss.

ii. Classification

Financial assets

Subsequent valuation of financial assets and liabilities depends on their classification. The Bank classified its financial assets into the following categories:

— financial assets that are measured at amortized cost
— financial assets that are measured at fair value through profit or loss (FVTPL) and
— financial assets that are measured at fair value through other comprehensive income (FVOCI).

Financial assets are valued at amortized cost if they are not designated as FVTPL and if the following two conditions are met:

— assets are held within business model whose objective is to hold assets to collect the contractual cash flows.
— the terms of the contract are such that, on certain dates, cash flows occur and can be assessed as "solely principal and interest payments" (SPPI).

Financial assets are valued at fair value through other comprehensive income only if they are not designated as FVTPL and if the following two conditions are met:

— financial assets held within business model whose objective is to hold assets to maturity or sale
— the terms of the contract are such that, on certain dates, cash flows occur and can be assessed as "solely principal and interest payments" (SPPI).

All financial assets that are not classified as measured at amortized cost or FVOCI will be valued through FVTPL.

Business model assessment

The Bank made a preliminary assessment of the objectives of the business model at a portfolio level in which a financial asset is held. The information that will be considered includes:

— The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
— How the performance of the portfolio is evaluated and reported to the management of the Bank;
— The risks affecting the performance of the business model and financial assets within that business model and how those risks are managed;
— How managers of business are compensated (e.g. whether compensation is based on fair value or the assets managed of the contractual cash flows collected);
— The frequency, scope and reason of selling financial assets in previous periods and expectations regarding future sales.

In its operations, the Bank focuses primarily on loans to customers and holds these funds to collect cash flows. No asset sales have been made so far.

Assessment whether the contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of a financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks costs (e.g. liquidity risk and administrative cost), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such as: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets, periodic resetting of interest rates.

Reclassification

After initial recognition, financial assets cannot be reclassified except in the period when the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities (other than liabilities under financial guarantees and approved loan conditions) as being measured at amortized cost. The Bank has no designated financial liabilities classified at fair value through profit or loss.

IFRS 9 requires that changes in fair value be recognized as follows:
— the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other result and
— the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities as FVTPL.

iii. Derecognition

Financial assets

The Bank derecognizes a financial asset (or part of a financial asset or group of financial assets) when

— the contractual rights to the cash flows from the financial asset expire,
— the Bank transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred,
— the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the book value of the asset (or the book value 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 as profit or loss.

The Bank enters in transactions whereby it transfers assets recognised 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.

When assets are sold to a third party with a competitive total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In business 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.

Financial liabilities

Recognition of financial liabilities ends when the obligation foreseen by the contract is fulfilled, cancelled or expired. In that case the existing financial liability is replaced by another obligation towards the same creditor, but under significantly changed conditions or if the terms of the existing obligation have been significantly changed, such replacement or change of conditions is treated as derecognition of the original obligation, with the simultaneous recognition of a new obligation, while the difference between the original and the new value of the liability is recognized in the income statement.

iv. Modification of financial assets and financial liabilities

Financial assets

If the terms of the financial asset are modified, then the Bank estimates that the cash flows of the modified asset are significantly different. If the cash flows are significantly different, then the estimated cash flows of the financial asset are considered to have expired. In that case, the recognition of the original financial asset is terminated and a new financial asset is recognized at fair value. The derecognition leads to a sustained gain or loss that must be recognized in the income statement, and to be equal to the difference between the amortized cost of the old financial asset and the fair value of the new financial asset minus the amount of expected credit losses recognized as a value adjustment on a new financial asset.

Modifications that result in the cessation of the recognition of the old financial asset and the initial recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI". Assets that are impaired at the moment of initial recognition. At the time of initial recognition, they will not be impaired, but the expected credit losses over the course of the term are included in the calculation of the effective interest rate. Consequently, the Bank includes initial expected credit losses in the assessment of cash flows when calculating the loan-adjusted effective interest rate of a financial asset that is considered impaired at the time of initial recognition.

If the modification of financial assets that are measured at amortized cost does not result in the derecognition of financial assets, the bank first calculates the gross carrying amount of financial assets using the original effective interest rate of the asset and recognizes the resulting change as income or expense due to modification through the income statement. For financial assets with variable interest rate, the initial effective interest rate is adjusted to the market conditions at the time of the modification.

Financial liabilities

The Bank derecognizes financial liabilities when their terms are significantly modified and cash flows of modified liabilities that are significantly different. In this case, a new financial liability is created that is measured at fair value based on modified terms. If the modification is not considered as a derecognition, then the amortized cost of the liability is calculated by discounting the modified cash flows at the original effective interest rate, with recognition of the income and expenses arising from the modifications through the income statement. For financial liabilities with variable interest rate, the initial effective interest rate is adjusted for the change in market conditions.

v. 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 amounts and it intends either to settle them 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.

vi. Fair value

Fair value measurement is performed regarding the assumption that the transaction of assets sale or transfer of an obligation takes place in the primary market for assets or liabilities, or if there is no primary market available, then in the most favorable market for assets or liabilities at a given moment.

The fair value of financial instruments that are traded on an active market at the balance sheet date is based on quoted market prices of supply and demand without impairment on transaction costs. The market is considered as active if the transactions of assets or liabilities are often carried out and in a sufficient scale, and therefore it can be determined the price.

The fair values of financial instruments that are not traded in an active market are determined using appropriate valuation techniques that involve: net present value techniques, comparison with similar instruments for which there are market prices and other models that include all factors that market participants consider when determining the price transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii. Impairment

The Bank recognizes impairment for the expected credit risk for the following financial instruments that are not measured at fair value through profit or loss:

— financial assets that are debt instruments
— approved financial guarantees and
— commitments under approved loans.

The Bank recognizes the cost of impairment in accordance with IFRS 9 in the amount equal to the expected credit loss over the entire lifetime of the asset (lifetime ECL) except in the following cases where the 12 month expected credit losses will be recognized:

- debt instruments that are found to have a low risk on the reporting date. The Bank considers this to be the case where the credit rating of the debt instrument is equivalent to the general definition of a "class eligible for investment" and
- other financial assets (other than loan receivables) for which credit risk has not significantly increased from initial recognition.

The 12 - month expected credit losses are the expected credit losses that occur if the default event occurs within 12 months after the reporting date. The financial instruments for which the 12 month expected credit losses are recognized are classified in Level 1: financial instruments with low credit risk.

Lifetime Losses - The aforementioned credit losses are the result of possible default events throughout the entire expected lifetime of a financial instrument. Financial instruments recognized as expected lifetime losses are classified into Level 2: financial instruments that have significantly increased credit risk.

Calculation of expected losses based on credit risk

Calculated expected credit losses represent the assessment of credit losses, weighted with probability (i.e., the present value of all cash shortages) over the expected duration of a financial instrument, while the cash shortfall alone is the difference between the cash flows that the Bank belongs under the contract and cash flows that the Bank expects.

For unimpaired financial assets, credit loss is the present value of the difference between the contractual cash flows that belong to the Bank under the contract and the cash flows the Bank expects to receive, whereas in the case of an impaired asset, it is the difference between its gross carrying amount and the present value of estimated future cash flows. For undrawn liabilities under an approved loan, the loss is the present value of the difference between the contractual cash flows that belong to the Bank, if the holder of the loan obligation withdraws funds, and the expected cash flows if the loan is withdrawn, whilst for financial guarantees it represents the expected payments that compensate for the loss of a customer arising out of payment default, reduced for any amounts that the Bank expects to collect.

The details are given in Note 6.A.

Restructured financial assets

If the terms of the financial asset are renegotiated or modified or the existing financial asset is replaced with new ones due to the financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and expected credit loss are measured as follows:

- if the expected restructuring will not result in the derecognition of an existing financial asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of an existing financial asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial assets that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of an existing financial asset.

Write-off policy

The Bank writes off loans, receivables and financial assets available for sale when it is determined that they are uncollectible (detailed in note 6 (A) (III)).

H. Cash and balances with central bank

Cash and cash equivalents include cash on the Bank's account, cash balance (paper and money in metals), accounts with the Central Bank and highly liquid financial assets (funds with an original maturity of up to three months). Cash and cash equivalents are valued at the nominal value in the balance sheet.

The gyro account includes obligatory reserves in dinars, which represent the minimum deposits set aside in accordance with the NBS Decision on Banks' Required Reserves with the National Bank of Serbia.

The Bank calculates and allocates domestic and foreign mandatory reserve in the amount, in the manner and within the time limits laid down by the Decision on Banks' Required Reserves with the National Bank of Serbia („Official Gazette of RS" No. 3/2011, 31/12, 57/12, 78/12, 107/12, 62/13, 125/14, 4/15, 78/15, 102/15 76/2018), which among other things defines the manner of determining the basis for calculation of domestic and foreign currency reserve requirements and the rate of reserve requirement. The Bank maintains an average daily balance of allocated domestic required reserves in their account, and the average daily balance of foreign currency required reserves on foreign currency accounts with NBS in the accounting period in an amount calculated in the manner defined by NBS regulations governing the reserve requirement of banks.

I. Securities

Financial assets intended to be held for an indefinite period of time that can be sold due to the need to provide liquidity or changes in interest rates, foreign exchange rates or equity prices are classified as financial assets available for sale. These are non-derivative financial assets initially recognized as available for sale or as any other instruments that are not classified as: (a) loans and receivables, (b) financial assets held to maturity, (c) financial assets at fair value values through profit or loss.

After initial recognition, financial assets available for sale are valued at fair value. Interest income is recognized in the income statement using the effective interest rate. Gains or losses on exchange differences on financial assets available for sale are recognized in the income statement. Impairment losses are recognized in the income statement.

Other fair value changes, other than impairment losses, are recognized in other comprehensive income until the financial asset is sold or impaired, where upon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

J. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks, other financial institution and customers.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans are approved in RSD and index-linked to RSD-EUR exchange rates. These loans are revalued at mid exchange rate of the National Bank of Serbia as at reporting date. The effects of such revaluation are included under net result from foreign exchange differences and foreign currency contractual clause.

Loans and receivables are presented in gross amount reduced for individual and collective allowances for impairment. Individual and collective allowance is made against the book value of loans and receivables that are identified as being impaired in order to reduce their value to recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal amount is recognized in the income statement within Net expenses on impairment of financial assets and credit risk off-balance sheet items / Net gains on impairment of financial assets and credit risk off-balance sheet items.

K. Property, plant and equipment

Property, plant and equipment consists of buildings, equipment, other fixed assets and investments in others as fixed assets for performing business.

i. Recognition and measurement

As at 1 January 2012, the Bank changed its accounting policy for measurement of properties and moved from cost to revaluation model. The difference between revalued amount and book value of property at transition date was recognized as revaluation gain within revaluation reserves. As per the revaluation model, after recognition as an asset, an item of property, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the book value does not differ materially from that which would be determined using fair value at the end of the reporting period.

In accordance with the accounting policy of the Bank, valuation of property shall be made whenever there are materially significant oscillations between the fair value and current book value. In case where such oscillations do not occur, valuations shall be made on a 3 to 5 year basis.

The Bank uses the elimination approach for property that it measures at fair value, i.e. the Bank eliminates accumulated depreciation against the gross book value of the asset.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Valuation of plant and equipment is carried out using the cost method, i.e. plant and equipment are measured at cost reduced for accumulated depreciation and any impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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.

Property, plant and equipment are derecognised from the books after disposal, due to technical obsolescence or when the future economic benefit from their use is not expected. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the book value of the item) is recognized in the net amount within other operating income in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank.

The cost of replacing part of an item of property or equipment is recognized in the book value 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 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. The depreciation estimate starts from the following month when these assets are brought to use.

Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Description	Estimated useful life (years)	% p.a.
Property	40	2.5
Furniture and other equipment	3 - 10	10 - 33.3
IT equipment	5	20
Investments in other fixed assets	2 - 10	10 - 50
Assets with right of use	1 - 10	10 - 92.3

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. There were no changes in rates and estimated useful lives during 2019.

L. Intangible assets

Intangible assets are measured at cost less accumulated amortization and any 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 ten years and amortization rate used is 10% (valid for both periods).

Amortization methods, useful lives and residual values are reassessed at each reporting date adjusted if appropriate.

M. Impairment of non-financial assets

The book values 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.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

An impairment loss is recognized if the book value of an asset or cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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 only to the extent that the asset's book value does not exceed the book value that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

N. Deposits, borrowings and subordinated liabilities

Deposits, borrowings from banks and customers and subordinated liabilities are the Bank's source of debt funding.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, except financial liabilities that are measured at fair value through income statement. After initial recognition, they are measured at their amortized cost using the effective interest method.

Deposits, received loans and subordinated liabilities are initially recognized at fair value plus accrued transaction costs, other than financial liabilities that are measured at fair value through profit and loss. After initial recognition, they are carried at amortized cost using the effective interest rate.

O. Provisions

A provision is recognized when the Bank has a present obligation, legal or derived, as a result of past events, and when it is probable that an outflow of resources will occur in order to settle the obligation and when it can be estimated reliably. 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. The exception is the provision for litigation, which the Bank determines based on the amount of claims and the costs of litigation for which it assesses the outcomes (Note 33 A).

The Bank makes provisions for potential losses on potential liabilities, for potential outflows in litigation, for the payment of employees on the basis of severance package and other potential liabilities if they meet the conditions for recognition.

In order to maintain the best possible estimates, provisions are reviewed, determined and, if necessary, corrected at each reporting date. When outflow of economic benefits for settling a legal or enforceable obligation is no longer probable, it is cancelled for the benefit of revenue. The provisions are monitored by type and may be used only for expenditure for which they were originally recognized. Provisions are not recognized for future business losses.

P. Employee benefits

For services rendered by employees during the reporting period, the Bank recognizes the undiscounted amount of short-term employee benefits, expected to be paid in exchange for these services, as expense, in the income statement in the period to which earnings are related.

Pursuant to the Labour Law (Official gazette of Republic of Serbia, no 24/2005, 61/2005, 54/2009, 32/2013, 75/2014 13/2017 – constitutional court decision, 113/2017 and 95/2018), the Bank calculates and pays contributions for pension and health insurance and contributions for unemployment insurance at the rates determined by the Law on the basis of gross employee salaries. The Bank has a legal obligation to carry over the transfer of suspended funds in favour of the respective state funds. The Bank has no additional obligations towards employees in this respect.

The Bank does not have its own pension funds and on this basis there are no identified costs as at 31 December 2019. In accordance with the Labour Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree.

Details and assumptions for calculating provisions for employee benefits are provided under Note no. 29.

41. PUBLISHED STANDARDS WHICH ARE STILL NOT YET APPLICABLE

At the time of the approval of the presented financial statements, the following standards and interpretations were published that will be applied in the following periods:

- Amendments to the Conceptual Reporting Framework - Amendments to the Conceptual Reporting Framework become more comprehensive in order to provide the International Accounting Standards Board with a complete set of standard-setting tools (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 3 Business Combinations - Definition of Business (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies - Modification of the Definition and Application of the Concept of Materiality, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 9, IAS 39 and IFRS 7 - IBOR Reform;
- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023);
- Sale or Contribution of Funds in Investor and Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) - Optional.

The Bank's management is currently reviewing the impact of these standards and interpretations on the Bank's financial statements, as well as the effective date.

Novi Sad, 31 March 2020

For and behalf of the management of
Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board