Mirabank a.d. Beograd

Financial Statements as of 31 December 2019 and Independent Auditor's Report

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Independent Auditor's Report

To the Shareholders of Mirabank a.d. Beograd

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mirabank a.d. Beograd (the "Bank") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the balance sheet as at 31 December 2019;
- the income statement for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. Our responsibilities under this regulation are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on auditing in the Republic of Serbia that are relevant to our audit of the financial statements in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on auditing in the Republic of Serbia.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing and auditing regulation effective 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 the Law on Auditing and auditing regulation effective 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.

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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

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

Refer to the original signed Serbian version

Saša Todorović
Licensed Auditor

Refer to the original signed Serbian version

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 17 March 2020

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

In thousands of Serbian Dinars	Note	31-Dec 2019	31-Dec 2018
Assets			
Cash and balances with the central bank	7	761,801	548,470
Securities	9	1,914,906	1,988,454
Loans and receivables from banks and other financial institutions	8	877,583	1,000,386
Loans and receivables from customers	10	2,568,377	2,125,356
Intangible assets	13	145,896	192,531
Property, plant and equipment	12	130,031	72,067
Other assets	11	9,204	10,628
Total assets		**6,407,798**	**5,937,892**
Liabilities			
Deposits and other liabilities to banks, other financial institutions and central bank	14	703,644	276,405
Deposits and other financial liabilities to customers	15	2,444,485	2,299,653
Subordinated liabilities	18	1,176,083	1,182,194
Provisions	16	25,010	9,191
Deferred tax liabilities		-	9,077
Other liabilities	17	125,771	28,362
Total liabilities		**4,474,993**	**3,804,882**
EQUITY			
Share capital	19	3,631,200	3,631,200
Acummulated Losses		(1,769,192)	(1,516,307)
Reserves		70,797	18,117
Total equity		**1,932,805**	**2,133,010**
Total liabilities and equity		**6,407,798**	**5,937,892**

Approved for issue and signed on behalf of the Executive Committee on 17 March 2020.

Nikola Mihailović
President of Executive Board

Dragana Bojin
Chief Accountant

Mirabank a.d. Beograd
mirabank
11070 Beograd Španskih boraca 1

Mirjana Garapić-Zakanyi
Member of Executive Board

In thousands of Serbian Dinars	Note	2019	2018
Interest income	20	197,609	203,427
Interest expenses	20	(55,257)	(44,697)
Net interest income		**142,352**	**158,730**
Fee and commission income	21	31,551	27,260
Fee and commission expense	21	(4,993)	(4,723)
Net income from fee and commission		**26,558**	**22,537**
Net losses on change in fair value of financial instruments		-	(2,478)
Net foreign exchange gains		3,090	6,474
Net loss on impairment of financial assets not measured at fair value through profit and loss	23	(11,049)	(20,937)
Other operating income	22	18,671	12,399
Total net operating income		**179,622**	**176,725**
Salaries, salary compensations and other personal expenses	24	(167,568)	(231,771)
Depreciation costs	25	(114,481)	(89,497)
Other income		175	639
Other expenses	26	(159,710)	(182,879)
Loss before tax		(261,962)	(326,783)
Income tax	27	9,077	4,314
LOSS FOR THE YEAR		**(252,885)**	**(322,469)**

In thousands of Serbian Dinars	**2019**	**2018**
Loss for the year	**(252,885)**	**(322,469)**
Other comprehensive income / (loss):		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments:		
- Gains less losses arising during the year	-	-
Debt securities at fair value through other comprehensive income:		
- Gains less losses arising during the year	52,680	(12,640)
Other comprehensive income / (loss) for the year	**52,680**	**(12,640)**
Total comprehensive loss for the year	**(200,205)**	**(335,109)**

In thousands of Serbian Dinars	**Share capital**	**Revaluation reserve for securities at FVOCI**	**Accumulated losses**	**Total**
Balance at 1 January 2018	**3,631,200**	**27,355**	**(1,189,845)**	**2,468,710**
Adoption of IFRS 9: – remeasurement for expected credit losses, net of tax	-	3,401	(3,992)	**(591)**
Restated balance at 1 January 2018	**3,631,200**	**30,756**	**(1,193,837)**	**2,468,119**
Loss for the year	-	**-**	(322,469)	**(322,469)**
Other comprehensive loss	-	(12,640)	-	**(12,640)**
Balance at 31 December 2018	**3,631,200**	**18,117**	**(1,516,307)**	**2,133,010**
Loss for the year	-	**-**	(252,885)	**(252,885)**
Other comprehensive income	-	52,680	-	**52,680**
Balance at 31 December 2019	**3,631,200**	**70,797**	**(1,769,192)**	**1,932,805**

In thousands of Serbian Dinars	**2019**	**2018**
Cash flows from operating activities	**194,896**	**152,719**
Interest receipts	116,653	110,625
Fee and commission receipts	34,630	26,934
Receipts of other operating income	43,613	15,160
Cash used in operating activities	**(400,976)**	**(508,748)**
Interest payments	(40,140)	(44,649)
Fee and commission payments	(4,978)	(4,728)
Payments to and on behalf of employees	(173,460)	(233,914)
Taxes, contributions and other duties paid	(3,891)	(6,183)
Payments for other operating expenses	(178,507)	(219,274)
Net cash outflows from operating activities prior to increases or decreases in loans and deposits	**(206,080)**	**(356,029)**
(Increase) / Decrease in loans and receivables from banks, other financial organizations, central bank and customers	(189,142)	285,392
Increase / (Decrease) in deposits and other liabilities to banks, other financial institutions, central bank and customers	568,954	276,038
Decrease / (Increase) in receivables based on other financial assets that are not used for investing	-	4,472
Net cash inflows / (outflows) from operating activities	**173,732**	**209,873**
Acquisition of debt securities at fair value through other comprehensive income	(1,150,263)	(752,668)
Proceeds from disposal and redemption of debt securities at fair value through other comprehensive income	1,351,101	234,031
Acquisition of premises and equipment and intangible assets	(4,158)	(20,432)
Disposal of premises and equipment and intangible assets	-	29
Net cash from/(used in) investing activities	**196,680**	**(539,040)**
Net increase/(decrease) in cash and cash equivalents	370,412	(329,167)
Cash and cash equivalents at the beginning of the year	743,680	1,072,736
Effect of exchange rate changes on cash and cash equivalents	(3,345)	111
Cash and cash equivalents at the end of the year	**1,110,747**	**743,680**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 2019 for Mirabank a.d. Beograd (the "Bank").

The Bank was incorporated and is domiciled in the Republic of Serbia. The Bank is a joint stock company limited by shares and was set up in accordance with the Serbian regulations. The founder of the Bank, Duingraaf Financial Investments B.V., Hoogoorddreef 15, 1101BA Amsterdam, the Netherlands (hereinafter: the Founder), obtained the preliminary permit to incorporate the Bank with the Decision of the National Bank of Serbia No. IO NBS 32 dated August 18, 2014. As at 31 December 2019 and 2018 the Bank's ultimate parent company was Royal Group Holding L.L.C., the United Arab Emirates.

The National Bank of Serbia issued a Decision No. IO NBS 58 dated December 16, 2014, thus granting the operating license to the Bank.

Upon obtaining the approval from the National Bank of Serbia for the acts of the Founding Assembly of the Bank (the Decision on Appointment of the President and Members of the Board of Directors of the Bank, the Decision on Appointment of the President and Members of the Executive Board of the Bank, the Decision on the Adoption of the Articles of Association of the Bank, the Decision on the First Share Issue of the Bank, the Decision on the Adoption of the Strategy and Business Policy of the Bank), the Bank was registered with the Companies Registry based on the Decision of the Serbian Business Registers Agency BD 8779/2015 dated February 5, 2015.

The Founder of the Bank and the Bank are not members of the banking group. The initial capital of the Bank is EUR 15 million in RSD counter value; capital conversion was performed on April 6, 2016, upon opening of the Bank's account with the National Bank of Serbia, following which the Bank began conducting its operations through that account and payment transactions, and at the same time it initiated the reporting process to the National Bank of Serbia.

On May 11, 2016, with registration in the Central Securities Depository and Clearing House, the Bank's capital was increased through the II share issue in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, after which the total share capital of the Bank (along with the initial issue in the amount of RSD 1,790,700 thousand) amounted to RSD 3,631,200 thousand. Pursuant to the Decision BD 39191/2017 of May 16, 2016, the Business Registers Agency completed registration of changes/increase in share capital.

Members of the Executive Board of the Bank as at 31 December 2019 are:

Nikola Mihailović, President,
Mirjana Garapic Zakanyi, Member.

Members of the Board of Directors of the Bank as at 31 December 2019 are:

Fadhel AlAli, Chairman
Majed Fuad Mohammad Odeh
Mustafa Ghazi Kheriba
Dejan Nikolić
Murshed Abdo Murshed AlRedaini

The Bank's Company registration number is 21080608. The Tax Identification Number assigned to the Bank is 108851504.

Principal activity. The Bank's principal business activity is commercial banking operations within the Republic of Serbia. The Bank has operated under a full banking licence issued by the National Bank of Serbia ("NBS") since December 16, 2014.

The Bank participates in the state deposit insurance scheme. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to EUR 50 thousand per individual in the case of the withdrawal of a licence of a bank or a NBS imposed moratorium on payments.

1 Introduction (continued)

Registered address and place of business. The headquarter of the Bank is in Belgrade, 1 Španskih boraca Street in Novi Beograd, and its operations are conducted in 1 branch office in the territory of the Republic of Serbia at the same address. As at 31 December 2019, the Bank had 36 employees (as at 31 December 2018 had 35 employees).

Presentation currency. These financial statements are presented in thousand of Serbian Dinars ("RSD"), unless otherwise stated. Dinar is the official reporting currency in the Republic of Serbia.

Abbreviations. A glossary of various abbreviations used in this document is included in Note 38.

2 Basis of preparation and presentation of the financial statements and accounting convention

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

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS nos. 101/2017, 38/2018 and 103/2018).

The Bank does not prepare and present consolidated financial statements in accordance with the International Financial Reporting Standards since the Bank does not hold equity interest in any subsidiaries.

These financial statements were prepared at historical cost principle, except for the measurement of the financial assets and liabilities at fair value through other comprehensive income.

The principal accounting policies applied in the preparation of these financial statements are set in Note 3. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Going concern. Management prepared these financial statements on a going concern basis. The Bank is still a loss making entity, however well capitalised and with continious support from the Group through subordinated debt. Refer to Note 30 for compliance with regulatory covenants and Note 18 for details about subordinated debt.

3 Significant Accounting Policies

Financial instruments – key measurement terms. *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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices.

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate in the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the balance sheet.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

3 Significant Accounting Policies (Continued)

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification*.* Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

3 Significant Accounting Policies (Continued)

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the balance sheet. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 29 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 29. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

As an exception, for certain financial instruments that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. The Bank writes off exposures that are fully provided for when no recovery is expected. The write-off represents a derecognition event.

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: difference between the discounted value of renegotiated cash-flow versus discounted value of initially contracted cash flow, any new contractual terms that substantially affect the risk profile of the asset, such as change in the currency denomination and repayment method.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

3 Significant Accounting Policies (Continued)

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified and subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the Carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss.

The Bank did not have any such modificantions in the current or comparative period.

Cash and balances with the Central Bank. Cash and balances held with the central bank include cash on hand, balances held on the Bank's gyro account, other cash funds and the mandatory foreign currency reserve held with the central bank. Cash and balances held with the central bank are stated at amortized cost within the statement of financial position because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

For the purposes of cash flow statement preparation, cash and cash equivalents include also funds held on the accounts with foreign banks. Mandatory foreign currency reserve held with the central bank is carried at AC and represents non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Derivative financial instruments. Derivative financial instruments include forward transactions, currency swaps, interest rate swaps as well as interest options. In the balance sheet they are presented within assets if their fair value is positive or within the liabilities if their fair value is negative. They are initially recognized at fair value and the effects of the change in fair value on subsequent measurement are presented in the income statement, within the line item "Net gains/losses on the change in the fair value of financial instruments".

3 Significant Accounting Policies (Continued)

Loans and Receivables. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, positions "Loans and receivables to banks and other financial institutions" and "Loans and receivables to customers" in the balance sheet include financial assets that are measured at: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC. If they are measured at amortized cost, loans and receivables are presented net of allowances for impairment in the balance sheet (Note 10). Impairment allowances are determined based on the ECL models. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Debt securities. The "Securities" position in the balance sheet includes debt securities that can be classified into all three categories of financial assets depending on the business model and SPPI criteria. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Until 1 January 2018, in accordance with IAS 39, the Bank classified debt securities as held to maturity securities, securities at fair value through profit or loss and securities available for sale. Initially, these securities were recognized at fair value plus transaction costs, except in the case of securities at fair value through profit or loss.

Available-for-sale securities included securities that were intended to be held for an indefinite period of time and could have been sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. Securities available for sale were subsequently measured at fair value. Interest income on securities that were classified as available for sale was recognized in the income statement using the effective interest method. Foreign exchange gains and losses on securities available for sale were recognized in the income statement. Impairment losses were recognized in the income statement. Other fair value changes were recognized within the OCI until the moment of sale of the securities, when cumulative gains and losses previously recognized in OCI, were reclassified to the income statement

Property and Equipment.

Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and any provision for impairment, where required.

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

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. 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. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized within other income/expenses in profit or loss.

3 Significant Accounting Policies (Continued)

Subsequent Expenditure

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

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embeded 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.

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.

The depreciation rates used for the current and comparative periods are as follows:

1) Buildings: up to 50 years
2) Right-of-use assets Shorter of useful life and the term of the underlying lease
3) Leasehold improvements: Shorter of useful life and the term of the underlying lease
4) Equipment:
   a. Personal computers: 3-5 years
   b. Information systems hardware: up to 10 years
   c. Other equipment: up to 15 years

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

Accounting for leases by the Bank as a lessee from 1 January 2019. The Bank leases business premises, equipment and cars. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments: fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Bank uses its incremental borrowing rate, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment.

Right-of-use asset is measured at cost comprising the amount of the initial lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by the Bank and an estimate of restoration costs. The right-of-use assets are presented within Premises, equipment and right-of-use assets and are subject to impairment in line with the Bank’s policy as described in Note 3 Impairment of non-financial assets.

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis over the lease term.

The lease term also includes periods covered by an option to extend, or an option to terminate, if the lessee is reasonably certain to exercise the extension option, or not to exercise the termination option. A lease that contains a purchase option is not considered a short-term lease.The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

3 Significant Accounting Policies (Continued)

Accounting for leases by the Bank as a lessee prior to 1 January 2019. Leasing is classified as finance lease in case when substantially all benefits and risks arising from the ownership of the leased object are transferred to the Bank. Leasing is classified as operating lease in case when the benefits and risks arising from the ownership of the lease are not transferred to the Bank.

All payments made during the year under operating lease are recorded as an expense in the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Intangible assets. Intangible assets comprise software, licenses and other intangible assets.

Intangible assets purchased by the Bank are stated at cost less accumulated amortization and any provision for impairment, where required.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embeded 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 an intangible asset, from the date that it is available for use. The estimated useful life of intangible assets is up to seven years, except for the assets whose usage periods are contractually defined, when these assets are amortized over the contractually defined periods.

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

Impairment of Non-Financial Assets. The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit 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 a cash-generating unit.

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

Due to banks and other financial institutions. Amounts due to banks and other financial institutions are recorded when money or other assets are advanced to the Bank by the counterparty. The non-derivative liability is carried at AC.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

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

3 Significant Accounting Policies (Continued)

Pursuant to the Labour Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfilment of the prescribed conditions represent the present value of the expected future payments to employees determined by actuarial assessment using assumptions.

For determination of provisions for retirement benefits, the Bank uses data such as mortality rate tables, employee turnover and disability rates, projected annual salary growth rate of 3%, annual discount rate of 5%.

Provisions. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Bank does not perform discounting of the future cash flows expected to arise in the near term.

Financial Guarantees. Financial guarantee represents contract whereby the Bank is obligated to make the designated payment to the guarantee holder for the loss incurred due to the designated debtor's failure to make the relevant payment in timely manner in accordance with the debt instrument terms.

Financial guarantee liabilities are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized over the life of the financial guarantee. The guarantee liability is subsequently measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition.

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

3 Significant Accounting Policies (Continued)

The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, portfolio and other asset management advisory and service fees, wealth management and financial planning services, or fees for servicing loans on behalf of third parties, etc.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

Sales and purchases of foreign currencies and currency conversion. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as foreign exchange gains less losses at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Bank's presentation currency, is the national currency of the Republic of Serbia, Serbian Dinar ("RSD").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the NBS at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBS, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

3 Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to, or recovered from, the taxation authority in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 29. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Credit exposure on revolving credit facilities. For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (eg the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition.

Should 10% of all loans and advances to customers classified in Stage 1 as of 31 December 2019 be measured at lifetime ECL (Stage 2), the expected credit loss allowance would be higher by RSD 1,104 thousand as of 31 December 2019 (31 December 2018: higher by RSD 8,432 thousand).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank's loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply, are not relevant for assessing whether cash flows are SPPI.

The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based on quantitative and qualitative factors, described in the relevant accounting policy and the qualitative factors require significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: liquidation or bankruptcy proceedings, collateral enforcement activities were completed.

Deferred income tax asset recognition. The deferred tax asset represents income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The Bank did not recognize any deferred tax asset.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases. The Bank adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019 and with certain simplifications and exemptions, and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of IFRS 16. According to the modified retrospective method cumulative effect of initially applying IFRS 16 is recognised as an adjustment to the opening balance of retained earnings at the date of initial application, being 1 January 2019.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of 1 January 2019. The weighted average Bank's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

In applying IFRS 16 for the first time, the Bank has elected, as allowed by the Standard, not to apply IFRS 16 provisions to leases of intangible assets, short-term leases (leases with a shorter duration than 12 months), and low-value assets leases.

The Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

Based on the above, as at 1 January 2019, the Bank recognised right-of-use assets of RSD 121,431 thousand and additional lease liability of RSD 121,431 thousand. The adoption of IFRS 16 had no impact on the Bank's opening balance of retained earnings as of 1 January 2019.

5. Adoption of New or Revised Standards and Interpretations (Continued)

The following table presents reconciliation of the operating lease commitments reported as of 31 December 2018 (Note 31) and lease liability recognised at 1 January 2019:

In thousands of RSD	**1 January 2019**
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018 (Note 31)	**190,134**
Effect of discounting to present value	(12,063)
Less short-term leases not recognised as a liability	(40,621)
Less VAT not recognised as liability	(16,019)
Lease liability recognised as at 1 January 2019	**121,431**

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

In thousands of RSD	**Note**	**Impact of adopting IFRS 16**
Increase in right-of-use assets	12	121,431
Increase in lease liabilities	17	121,431

The recognised right-of-use assets entirely relate to the leased business premises:

In thousands of RSD	**31 December 2019**	**1 January 2019**
Business premises for own use	97,145	121,431
Total right-of-use assets	**97,145**	**121,431**

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Bank:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later:

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021),
- Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020,
- Definition of a business – Amendments to IFRS 3 (effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020),
- Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020),
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB),

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

7 Cash and balances with the central bank

In thousands of Serbian Dinars	**2019**	**2018**
In dinars		
Cash on hand	9,256	9,537
Current (gyro) account	296,005	283,110
Balances with NBS other than current (gyro) account and mandatory reserves	220,060	87
In foreign currency		
Cash on hand	18,610	13,872
Mandatory cash balances with NBS	217,870	241,864
Total cash and balances with the central bank	**761,801**	**548,470**

The table below discloses the credit quality of cash and balances with the central bank based on credit risk grades at 31 December 2019. Refer to Note 29 for the description of the Bank’s credit risk grading system.

In thousands of Serbian Dinars	**Balances with the NBS, including mandatory reserves**
- Excellent	733,935
Total cash and balances with the central bank, excluding cash on hand	**733,935**

7 Cash and balances with the central bank (Continued)

The credit quality of cash and balances with the central bank at 31 December 2018, was as follows:

In thousands of Serbian Dinars	**Balances with the NBS, including mandatory reserves**
- Excellent	525,061
Total cash and balances with the central bank, excluding cash on hand	**525,061**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

The gyro account balance includes the RSD mandatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Mandatory Reserves Held with the NBS. In accordance with the said Decision, the mandatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. The reserve is thereafter held on the Bank's gyro account. In 2019 NBS paid interest on the balance of the Bank's mandatory RSD reserve at the annual interest rate of 1.25% until August, at 1.0% until November, and at 0.75% from December.

The mandatory foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Mandatory Reserves Held with the NBS. In accordance with the said Decision, the mandatory foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month. The mandatory foreign currency reserve rates remained unaltered during 2019 and equaled 20% for foreign currency deposits with maturities of up to 2 years and 13% for foreign currency deposits with maturities of over 2 years. The rate applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index was 100%.

The Bank is under obligation to maintain the average daily balance of the allocated foreign currency reserve in the amount of the calculated foreign currency mandatory reserve on the foreign currency accounts held with NBS. Foreign currency mandatory reserve is non interest bearing.

8 Loans and receivables from banks and other financial institutions

In thousands of Serbian Dinars	**2019**	**2018**
Correspondent accounts and overnight placements with other banks	566,876	437,161
Placements with other banks	206,220	443,504
Placement/deposits with other financial institutions	104,792	119,848
Less: Credit loss allowance	(305)	(126)
Total loans and receivables from banks and other financial organisations	**877,583**	**1,000,387**

8 Loans and receivables from banks and other financial institutions (Continued)

The Bank considers Correspondent accounts and overnight placements with other banks as well as Placements with other banks with original maturities of less than three months as equivalent to the category Cash and Cash Equivalents and for the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The Bank has recognized rather insignificant amount of credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

The following table contains an analysis of loans and receivables from banks and other financial institutions balances by credit quality at 31 December 2019 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 29 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other financial institutions balances. The carrying amount of loans and receivables from banks and other financial institutions balances at 31 December 2019 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Serbian Dinars	**Stage 1** (12-months ECL)	**Stage 2** (lifetime ECL for SICR)	**Stage 3** (lifetime ECL for credit impaired)	**POCI**	**Total**
**Correspondent accounts and overnight placements with other banks**					
- Excellent	566,876	-	-	-	566,876
Gross carrying amount	566,876	-	-	-	566,876
Credit loss allowance	(39)	-	-	-	(39)
Carrying amount	566,837	-	-	-	566,837
**Placements with other banks**					
- Excellent	206,220	-	-	-	206,220
Gross carrying amount	206,220	-	-	-	206,220
Credit loss allowance	(19)	-	-	-	(19)
Carrying amount	206,201	-	-	-	206,201
**Placements with other financial institutions**					
- Excellent	-	-	-	-	-
- Good	104,792	-	-	-	104,792
Gross carrying amount	104,792	-	-	-	104,792
Credit loss allowance	(247)				(247)
Carrying amount	104,545				104,545
Total loans and receivables from banks and other financial organisations (gross carrying amount)	**877,888**	**-**	**-**	**-**	**877,888**
Credit loss allowance	(305)	-	-	-	(305)
Total loans and receivables from banks and other financial organisations (carrying amount)	**877,583**	**-**	**-**	**-**	**877,583**

8 Loans and receivables from banks and other financial institutions (Continued)

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2018 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurements:

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Correspondent accounts and overnight placements with other banks					
- Excellent	437,161	-	-	-	**437,161**
Gross carrying amount	**437,161**	**-**	**-**	**-**	**437,161**
Credit loss allowance	(15)	-	-	-	(15)
Carrying amount	**437,146**	**-**	**-**	**-**	**437,146**
Placements with other banks					
- Excellent	443,504	-	-	-	**443,504**
Gross carrying amount	**443,504**	**-**	**-**	**-**	**443,504**
Credit loss allowance	(15)	-	-	-	(15)
Carrying amount	**443,488**	**-**	**-**	**-**	**443,488**
Placements with other financial institutions					
- Excellent	60,764	-	-	-	**60,764**
- Good	59,085	-	-	-	**59,085**
Gross carrying amount	**119,848**	**-**	**-**	**-**	**119,848**
Credit loss allowance	(96)	-	-	-	(96)
Carrying amount	**119,752**	**-**	**-**	**-**	**119,752**
Total loans and receivables from banks and other financial organisations (gross carrying amount)	**1,000,512**	**-**	**-**	**-**	**1,000,512**
Credit loss allowance	(126)	-	-	-	(126)
Total loans and receivables from banks and other financial organisations (carrying amount)	**1,000,387**	**-**	**-**	**-**	**1,000,387**

At 31 December 2019 and 31 December 2018, due from other banks balances are not collateralised.

The credit loss allowance for due from other banks recognised in 2019 is impacted by a variety of factors, as described below:

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

8 Loans and receivables from banks and other financial institutions (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount due from other banks between the beginning and the end of the annual period due to these factors:

	Credit loss allowance				**Gross carrying amount**			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**
Loans and receivables from banks and other financial institutions								
At 31 December 2018	**(126)**	**-**	**-**	**(126)**	**1,000,512**	**-**	**-**	**1,000,512**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(586)	-	-	(586)	5,741,360	-	-	5,741,360
Derecognised during the period	338	-	-	338	(5,863,985)	-	-	(5,863,985)
Changes risk parameters	69	-	-	69	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	(179)	-	-	(179)	(122.625)	-	-	(122.625)
At 31 December 2019	**(305)**	**-**	**-**	**(305)**	**877,888**	**-**	**-**	**877,888**

	Credit loss allowance				**Gross carrying amount**			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**
Loans and receivables from banks and other financial institutions								
At 1 January 2018	(591)	-	-	**(591)**	1,706,110	-	-	**1,706,110**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(192)	-	-	**(192)**	4,809,211	-	-	**4,809,211**
Derecognised during the period	671	-	-	**671**	(5,514,808)	-	-	**(5,514,808)**
Changes risk parameters	(14)	-	-	**(14)**	-	-	-	**-**
Total movements with impact on credit loss allowance charge for the period	465	-	-	**465**	(705,597)	-	-	**(705,597)**
At 31 December 2018	**(126)**	**-**	**-**	**(126)**	**1,000,512**	**-**	**-**	**1,000,512**

9 Securities

In thousands of Serbian Dinars	**2019**	**2018**
Debt securities at FVOCI	1,914,906	1,988,454
Total investments in debt securities	**1,914,906**	**1,988,454**

The table below discloses investments in debt securities at 31 December 2019 and 31 December 2018 by measurement categories and classes:

In thousands of Serbian Dinars	**Debt securities at FVOCI 2019**	**Debt securities at FVOCI 2018**
Serbian government bonds	1,914,906	1,988,454
Total investments in debt securities at 31 December (fair value)	**1,914,906**	**1,988,454**

(a) Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 29 or the ECL measurement approach.

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Serbian government bonds					
- Excellent	1,847,779	-	-	-	**1,847,779**
Total AC gross carrying amount	**1,847,779**	**-**	**-**	**-**	**1,847,779**
Less credit loss allowance	(3,670)	-	-	-	(3,670)
Fair value adjustment from AC to FV	70,797	-	-	-	70,797
Carrying value (fair value)	**1,914,906**	**-**	**-**	**-**	**1,914,906**
Total investments in debt securities measured at FVOCI (fair value)	**1,914,906**	**-**	**-**	**-**	**1,914,906**

9 Securities (Continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018. For the particular exposures, as at 31 December 2018 the fair value adjustment from AC to FV is positive and higher than calculated ECL allowance based on credit risk grades. In such case, the Bank recognizes expected credit loss in its income statement, without recognition of ECL allowance as deductible item from the AC, but rather as an increase of the relevant reserve in its equity position.

In thousands of Serbian Dinars	**Stage 1** (12-months ECL)	**Stage 2** (lifetime ECL for SICR)	**Stage 3** (lifetime ECL for credit impaired)	**POCI**	**Total**
Serbian government bonds					
- Excellent	1,972,933	-	-	-	**1,972,933**
Total AC gross carrying amount	**1,972,933**	**-**	**-**	**-**	**1,972,933**
Less credit loss allowance	(2,597)	-	-	-	(2,597)
Fair value adjustment from AC to FV	18,117	-	-	-	18,117
				-	
Carrying value (fair value)	**1,988,454**	**-**	**-**	**-**	**1,988,454**
Total investments in debt securities measured at FVOCI (fair value)	**1,988,454**	**-**	**-**	**-**	**1,988,454**

The debt securities at FVOCI are not collateralised. At 31 December 2019 debt securities at FVOCI have not been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds.

Movements in the credit loss allowance and in the gross amortised cost amount of Serbian government bonds at FVOCI were as follows.

In thousands of Serbian Dinars	**Credit loss allowance** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	**Gross carrying amount** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Serbian government bonds **At 31 December 2018**	**(2,597)**	**-**	**-**	**(2,597)**	**1,972,933**	**-**	**-**	**1,972,933**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(2,883)	-	-	(2,883)	1,150,263	-	-	**1,150,263**
Derecognised during the period	1,810	-	-	1,810	(1,275,418)	-	-	**(1,275,418)**
Total movements with impact on credit loss allowance charge for the period	(1,073)	-	-	**(1,073)**	(125,155)	-	-	**(125,155)**
At 31 December 2019	**(3,670)**	**-**	**-**	**(3,670)**	**1,847,778**	**-**	**-**	**1,847,778**

9 Securities (Continued)

In thousands of Serbian Dinars	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Serbian government bonds								
At 1 January 2018	(3,401)	-	-	**(3,401)**	1,359,740	-	-	**1,359,740**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(907)	-	-	**(907)**	863,785	-	-	**863,785**
Derecognised during the period	1,711	-	-	**1,711**	(250,591)	-	-	**(250,591)**
Total movements with impact on credit loss allowance charge for the period	804	-	-	**804**	613,194	-	-	**613,194**
At 31 December 2018	**(2,597)**	**-**	**-**	**(2,597)**	**1,972,933**	**-**	**-**	**1,972,933**

10 Loans and Advances to Customers

In thousands of Serbian Dinars	**2019**	**2018**
Gross carrying amount of loans and advances to customers at AC	2,584,791	2,129,676
Less credit loss allowance	(16,414)	(4,320)
Total carrying amount of loans and advances to customers at AC	**2,568,377**	**2,125,356**

The Bank does not hold a portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. As a result, all loans and advances were classified as at AC from the date of initial recognition. The carrying amount presented in the balance sheet best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2019 and 31 December 2018 are disclosed in the table below:

In thousands of Serbian Dinars	31-Dec-19 Gross carrying amount	Credit loss allowance	Carrying amount	31-Dec-18 Gross carrying amount	Credit loss allowance	Carrying amount
Loans to corporate customers						
Standard lending	2,584,791	(16,414)	**2,568,377**	2,129,676	(4,320)	**2,125,356**
Total loans and advances to customers at AC	**2,584,791**	**(16,414)**	**2,568,377**	**2,129,676**	**(4,320)**	**2,125,356**

Standard lending relates to loans issued to large commercial entities under the standard terms, mainly for working capital financing.

10 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period and comparative periods:

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
In thousands of Serbian Dinars	(12-months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit im-paired)	Total	(12-months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit im-paired)	Total
Standard lending								
At 31 December 2018	**(4,320)**	**-**	**-**	**(4,320)**	**2,103,882**	**25,794**	**-**	**2,129,676**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(9,941)	(369)	(5,771)	**(16.081)**	(40,017)	40,017	-	**-**
New originated or purchased	3,142	46	-	**3,188**	2,510,974	(197)	4,608	**2,515,385**
Derecognised during the period	4,160	328	(3,689)	**799**	(1,951,040)	(98,218)	-	**(2,049,258)**
Changes in accrued interest								
Total movements with impact on credit loss allowance charge for the period	**(2,639)**	**5**	**(9,460)**	**(12,094)**	**519,917**	**(58,398)**	**4,608**	**466,127**
Movements without impact on credit loss allowance charge for the period:								
Write-offs								
FX and other movements	-	-	-		(9,658)	(1,070)	(284)	**(11,012)**
Modification of contractual cash flows								
At 31 December 2019	**(6,958)**	**5**	**(9,460)**	**(16,414)**	**2,614,141**	**(33,674)**	**4,324**	**2,584,791**

10 Loans and Advances to Customers (Continued)

In thousands of Serbian Dinars	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Standard lending								
At 1 January 2018	(5,695)	(45)	(4,944)	**(10,684)**	2,164,689	26,788	19,794	**2,211,271**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	42	-	(21,929)	**(21,887)**	(23,647)	-	23,647	**-**
New originated or purchased	(2,974)	-	-	**(2,974)**	1,878,977	-	-	**1,878,977**
Derecognised during the period	4,307	45	4,944	**9,296**	(1,905,032)	(929)	(21,540)	**(1,927,501)**
Changes in accrued interest	-	-	-	**-**	(491)	-	(60)	**(551)**
Total movements with impact on credit loss allowance charge for the period	**1,376**	**45**	**(16,985)**	**(15,564)**	**(50,194)**	**(929)**	**2,048**	**(49,075)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	21,929	**21,929**	-	-	(21,929)	**(21,929)**
FX and other movements	-	-	-	**-**	(4,522)	(64)	87	**(4,500)**
Modification of contractual cash flows	-	-	-	**-**	(6,091)	-	-	**(6,091)**
At 31 December 2018	**(4,320)**	**-**	**-**	**(4,320)**	**2,103,882**	**25,794**	**-**	**2,129,676**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 29. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

10 Loans and Advances to Customers (Continued)

The following table contains analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Standard lending					
- Excellent	1,381,222	-	-	-	**1,381,222**
- Good	867,994	99,216	-	-	**967,210**
- Satisfactory	123,238	-	-	-	**123,238**
- Special monitoring	15,237	-	-	-	**15,237**
- Default	-	-	97,885	-	**97,885**
Gross carrying amount	**2,387,691**	**99,216**	**97,885**	**-**	**2,584,791**
Credit loss allowance	(6,954)	-	(9,460)	-	**(16,414)**
Carrying amount	**2,380,737**	**99,216**	**88,425**	**-**	**2,568,377**

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Standard lending					
- Excellent	1,007,907	-	-	-	1,007,907
- Good	1,090,569	25,794	-	-	1,116,363
- Special monitoring	5,407	-	-	-	5,407
Gross carrying amount	**2,103,882**	**25,794**	**-**	**-**	**2,129,676**
Credit loss allowance	(4,320)	-	-	-	(4,320)
Carrying amount	**2,099,562**	**25,794**	**-**	**-**	**2,125,356**

For description of the credit risk grading used in the tables above refer to Note 29.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of Serbian Dinars	2019		2018	
	Amount	**%**	**Amount**	**%**
- Agriculture, forestry and fishing	152,476	5.94%	117,687	5.54%
- Mining, manufacturing, water supply	533,049	20.75%	173,374	8.16%
- Electricity supply	15,792	0.61%	23,646	1.11%
- Construction	238,378	9.28%	390,233	18.36%
- Wholesale and retail trade	1,374,800	53.53%	1,302,036	61.26%
- Transportation and storage	203,815	7.94%	113,590	5.34%
- Real estate	50,065	1.95%	4,787	0.23%
- Other	2	0.00%	3	0.00%
Total loans and advances to customers carried at AC	**2,568,377**	**100.00%**	**2,125,356**	**100.00%**

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

In thousands of Serbian Dinars	**Standard lending**	**Total**
Loans collateralised by:		
- residential real estate	105,142	105,142
- other real estate	329,534	329,534
- cash deposits	69,437	69,437
- other assets	143,145	143,145
Total	**647,258**	**647,258**
Unsecured exposures	1,921,119	**1,921,119**
Total carrying value loans and advances to customers at AC	**2,568,377**	**2,568,377**

Information about collateral for loans to corporate customers is as follows at 31 December 2018:

In thousands of Serbian Dinars	**Standard lending**	**Total**
Loans collateralised by:		
- residential real estate	64,985	**64,985**
- other real estate	241,432	**241,432**
- cash deposits	52,156	**52,156**
- other assets	277,165	**277,165**
Total	**635,738**	**635,738**
Unsecured exposures	1,489,618	**1,489,618**
Total carrying value loans and advances to customers at AC	**2,125,356**	**2,125,356**

10 Loans and Advances to Customers (Continued)

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

In thousands of Serbian Dinars	**31 December 2019**	**31 December 2018**
Loans to corporate customers		
Standard lending	99,215	25,794
Total significantly over-collateralised loans and advances to customers carried at AC	**99,215**	**25,794**

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2019 is presented for credit impaired loans as follows:

	Over-collateralised assets		**Under-collateralised Assets**	
In thousands of Serbian Dinars	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to corporate customers				
Standard lending	-	-	88,425	79,493
Total			**88,425**	**79,493**

At 31 December 2018 the Bank had no credit impaired exposures.

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to three years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are after a valuation haircut of 40-80% applied to consider liquidity and quality of the pledged assets.

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2019 and 31 December 2018:

In thousands of Serbian Dinars	**31 December 2019**	**31 December 2018**
Loans to corporate customers		
Standard lending	22,142	21,929
Total	**22,142**	**21,929**

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

10 Loans and Advances to Customers (Continued)

In 2019 there were no loans with contractual modifications resulting in gains or losses recognised in profit or loss on modifications. Information about modifications of loans that have not resulted in derecognition as at 31 December 2018 is as follows:

In thousands of Serbian Dinars	**Loans and advances to customers**
**Year ended 31 December 2018**	
Amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	591,653
Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(6,212)
At 31 December 2018	
Gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year	584,826

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 29.

11 Other Assets

In thousands of Serbian Dinars	**2019**	**2018**
Other financial assets at AC	525	4,163
Less credit loss allowance	(81)	(2,458)
Total carrying amount of other financial assets	**444**	**1,705**
Other non-financial assets	9,530	9,560
Less allowance	(770)	(636)
Total carrying amount of other non-financial assets	**8,760**	**8,924**
Total other assets	**9,204**	**10,629**

11 Other Assets (Continued)

The table below contains an analysis of the credit risk exposure of other financial assets at AC. The carrying amount of other financial assets at AC at 31 December 2019 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Serbian Dinars	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Other financial assets					
- Excellent	190	-	-	-	**190**
- Good	22	97	6	-	**125**
- Satisfactory	58	-	31	-	**89**
- Special monitoring	4	-	-	-	**4**
- Default	-	-	117	-	**117**
Gross carrying amount	**274**	**97**	**154**	**-**	**525**
Credit loss allowance	-	-	(81)	-	**(81)**
Carrying amount	**274**	**97**	**73**	**-**	**444**

Other financial assets relate mainly to fee receivables from banking transactions, as well as from advisory services, thus are not secured by any kind of collateral.

	31-Dec-19			31-Dec-18		
In thousands of Serbian Dinars	**Gross carrying amount**	**Allowance / Accumulated depreciation**	**Carrying amount**	**Gross carrying amount**	**Allowance / Accumulated depreciation**	**Carrying amount**
Non-financial assets						
Prepayments for goods and services	8,259	-	**8,259**	7,952	-	**7,952**
Inventories	770	(770)	**-**	636	(636)	**-**
Other assets	501	-	**501**	972	-	**972**
Total other non-financial assets	**9,530**	**(770)**	**8,760**	**9,560**	**(636)**	**8,924**

11 Other Assets (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of other financial assets were as follows.

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	**Total**
Other financial assets								
At 31 December 2018	**-**	**-**	**(2,457)**	**(2,458)**	**53**	**15**	**4,094**	**4,163**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-	**-**
New originated or purchased	(2)	-	(1,995)	**(1,997)**	2,583	194	7,877	10,654
Derecognised during the period	2	-	3,407	**3,409**	(2,362)	(112)	(11,670)	**(14,144)**
(Increase) / decrease due to change of risk	-	-	816	**816**	-	-	-	**-**
Total movements with impact on credit loss allowance charge for the period	**-**	**-**	**2,229**	**2,229**	**221**	**82**	**(3,793)**	**(3,490)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	148	**148**	-	-	(148)	**(148)**
At 31 December 2019	**-**	**-**	**(81)**	**(81)**	**274**	**97**	**154**	**525**

11 Other Assets (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	**Total**
Other financial assets								
At 1 January 2018	(577)	-	(137)	**(714)**	2,662	-	139	**2,801**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	(3)	3	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	32	-	(32)	**-**	(71)	-	71	**-**
New originated or purchased	(1)	-	(110)	**(111)**	15,487	107	4,255	**19,850**
Derecognised during the period	75	-	122	**197**	(18,022)	(96)	(165)	**(18,283)**
(Increase) / decrease due to change of risk	470	-	(2,506)	**(2,036)**	-	-	-	**-**
Total movements with impact on credit loss allowance charge for the period	**577**	**-**	**(2,526)**	**(1,950)**	**(2,609)**	**15**	**4,161**	**1,567**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	206	**206**	-	-	(206)	**(206)**
At 31 December 2018	**-**	**-**	**(2,457)**	**(2,458)**	**53**	**15**	**4,094**	**4,163**

12 Premises, Equipment and Right-of-use assets

In thousands of Serbian Dinars	**Premises**	**Office and computer equipment**	**Construction in progress**	**Right-of-use assets**	**Total premises, equipment and right-of-use assets**
Cost at 1 January 2018	**70,580**	**131,202**	**3,049**	**-**	**204,831**
Accumulated depreciation	(32,603)	(57,838)	-	-	**(90,441)**
Carrying amount at 1 January 2018	**37,977**	**73,364**	**3,049**	**-**	**114,390**
Additions	-	-	533	-	**533**
Transfers	2,883	202	(3,084)	-	**1**
Disposals	-	(174)	-	-	**(174)**
Depreciation charge	(15,762)	(26,919)	-	-	**(42,681)**
Carrying amount at 31 December 2018	**25,098**	**46,473**	**498**	**-**	**72,069**
Cost at 31 December 2018	**73,463**	**131,230**	**498**	**-**	**205,191**
Accumulated depreciation	(48,365)	(84,757)	-	-	**(133,122)**
Carrying amount at 31 December 2018	**25,098**	**46,473**	**498**	**-**	**72,069**
Additions	-	-	1,355	121,431	**122,786**
Transfers	234	1,527	(1,761)	-	**-**
Disposals	-	(309)	(92)	-	**(401)**
Other	-	810	-	-	**810**
Depreciation charge	(15,964)	(24,982)	-	(24,286)	**(65,232)**
Carrying amount at 31 December 2019	**9,368**	**23,518**	**-**	**97,145**	**130,031**
Cost at 31 December 2019	**73,697**	**133,257**	**-**	**121,431**	**328,385**
Accumulated depreciation	**(64,329)**	**(109,739)**	**-**	**(24,286)**	**(198,354)**
Carrying amount at 31 December 2019	**9,368**	**23,518**	**,**	**97,145**	**130,031**

The Bank leases business premises with rental contract made for fixed period of lease. Until 31 December 2018 leases of premises were classified as operating lease. From 1 January 2019, lease of premises is recognised as a right-of-use asset and a corresponding lease liability. Interest expense on lease liabilities was RSD 4,254 thousand (Note 20).

Expenses relating to short-term leases of RSD 8,119 thousand in 2019 are included in other expenses (Note 26).

13 Intangible assets

In thousands of Serbian Dinars		Software	Licenses	Construction in progress	Total
Cost at 1 January 2018		**273,709**	**22,960**	**3,080**	**299,749**
Accumulated depreciation		(79,134)	(8,936)	-	**(88,070)**
Carrying amount at 1 January 2018		**194,575**	**14,024**	**3,080**	**211,679**
Additions		-	-	19,899	**19,899**
Transfers		28,292	2,307	(22,980)	**7,619**
Disposals		-	-	-	**-**
Depreciation charge		(41,244)	(5,421)	-	**(46,665)**
Carrying amount at 31 December 2018		**181,623**	**10,909**	**-**	**192,532**
Cost at 31 December 2018		**302,001**	**25,267**	**-**	**327,267**
Accumulated depreciation		**(120,378)**	**(14,358)**	**-**	**(134,736)**
Carrying amount at 31 December 2018		**181,623**	**10,909**	**-**	**192,532**
Additions		-	-	3,192	3,192
Transfers		3,192	-	(3,192)	**-**
Other		-	(810)	-	**(810)**
Depreciation charge	37	(43,919)	(5,099)	-	**(49,018)**
Carrying amount at 31 December 2019		**140,896**	**5,000**	**-**	**145,896**
Cost at 31 December 2019		**305,193**	**24,457**	**-**	**329,650**
Accumulated depreciation		**(164,297)**	**(19,457)**	**-**	**(183,754)**
Carrying amount at 31 December 2019		**140,896**	**5,000**	**-**	**145,896**

14 Deposits and other liabilities to banks, other financial institutions and central bank

In thousands of Serbian Dinars	2019	2018
Current accounts of other financial institutions	13,769	551
Term deposits of other financial institutions	689,790	275,783
Fees payable to central bank	85	71
Total deposits and other liabilities to banks, other financial institutions and central bank	**703,644**	**276,405**

15 Deposits and other liabilities to customers

In thousands of Serbian Dinars	2019	2018
State and public organisations	**3,535**	**730,253**
- Current accounts	3,390	31,114
- Term deposits	145	699,139
Other legal entities	**1,909,348**	**1,266,964**
- Current accounts	1,013,445	632,287
- Term deposits	895,903	634,677
Individuals	**531,602**	**302,435**
- Current accounts	28,848	78,389
- Term deposits	502,754	224,046
Total deposits and other liabilities to customers	**2,444,485**	**2,299,652**

Short-term deposit are term deposits denominated in RSD and foreign currency with maturity up to 12 mouths. These deposits have interest rates ranging from 0.50% - 2.10% per annum (on foreign currency deposits) or from 0.00% to 4.10% (on RSD deposits).

Long-term foreign currency deposits from individuals were collected at the interest rate from 1.20% to 1.60% annually, while long-term local currency deposits from legal entities were gathered at rates ranging up to 4.10%.

In thousands of Serbian Dinars	2019	2018
Local currency	**514,868**	**461,394**
- Current accounts	398,744	151,073
- Short-term	41,477	256,837
- Long-term	74,647	53,485
Foreign currency	**1,929,617**	**1,838,259**
- Current accounts	646,939	590,718
- Short-term	471.154	774,600
- Long-term	811,524	472,941
Total customer accounts	**2,444,485**	**2,299,653**

15 Deposits and other liabilities to customers (Continued)

Economic sector concentrations within customer accounts are as follows:

In thousands of Serbian Dinars	2019		2018	
	Amount	**%**	**Amount**	**%**
- Agriculture, forestry and fishing	162,687	6.66	347	0.02
- Mining, manufacturing, water supply	40,134	1.64	30,966	1.35
- Electricity supply	312	0.01	694	0.03
- Construction	636,101	26.03	401,350	17.45
- Wholesale and retail trade	388,513	15.89	288,518	12.55
- Transportation and storage	114,256	4.67	526,800	22.91
- Real estate	229,789	9.40	476,959	20.74
- Retail	577,398	23.62	302,435	13.15
- Foreign legal entities (except banks)	271,698	11.11	237,608	10.33
- Other	23,597	0.97	33,976	1.48
Total customer accounts	**2,444,485**	**100.00**	**2,299,653**	**100.00**

16 Provisions for Liabilities and Charges

Provision for liabilities and charges comprise the following

In thousands of Serbian Dinars	**2019**	**2018**
Provisions for retirement benefits	3,016	2,537
Provisions for accrued employees' annual leave	4,836	5,372
Provisions for losses on off-balance sheet assets	1,172	1,282
Provisions for litigations	15,986	-
Total provisions for liabilities and charges	**25,010**	**9,191**

The Bank made provisions for potential losses from legal litigations. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Movements in provisions for liabilities and charges are as follows:

In thousands of Serbian Dinars	Off-balance sheet exposures	Retirement benefits	Employees' annual leave	Litigations	**Total Provisions for Liabilities and Charges**
1 January 2018	**2,779**	**2,378**	**806**	-	**5,963**
New production	21	-	-	-	21
Derecognition	(1,048)	-	-	-	(1,048)
Increase/(decrease) - change in risk	(470)	-	-		(470)
Other movements		159	4.566		4,725
31 December 2018	**1,282**	**2,537**	**5,372**	-	**9,191**
New production	2,340	-	-	-	2,340
Derecognition	(700)	-	-	-	(700)
Increase/(decrease) - change in risk	(1,750)	-	-	-	(1,750)
Other movements	-	479	(536)	15,986	15,929
31 December 2019	**1,172**	**3,016**	**4,836**	**15,986**	**25,010**

17 Other Liabilities

Other liabilities comprise the following:

In thousands of Serbian Dinars	**2019**	**2018**
Suppliers	570	3,252
Advances received	11,290	4,706
Liabiilities for taxes and contributions	159	110
Accrued operating expenses	7,243	10,037
Accrued CAPEX	1,885	7,619
Deferred fee income	3,946	2,344
Lease liabilities	98,533	-
Other liabilities	2,145	292
Total	**125,771**	**28,362**

18 Subordinated Debt

Subordinated debt of RSD 1,176,083 thousand (2018: RSD 1,182,194 thousand) carries a variable interest rate of 6-months euribor +0.5% p.a. and matures on 30 October 2025 and 2 November 2025. The debt ranks after all other creditors in the case of liquidation.

Name of creditor	**Contracted amount**	**Curr.**	**31.12.2019. in EUR**	**Interest rate is annual**	**Maturity**	**Balance at 31.12.2019 in thous. of dinars**
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0,5%	30.10.2025.	587.964
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0,5%	02.11.2025.	587.964
Accrued interest						155
Total						**1,176,083**

Name of creditor	**Contracted amount**	**Curr.**	**31.12.2018. in EUR**	**Interest rate is annual**	**Maturity**	**Balance at 31.12.2018 in thous. of dinars**
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor + 0,5%	30.10.2025.	590,973
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor + 0,5%	02.11.2025.	590,973
Accrued interest						248
Total						**1,182,194**

Movements in the carrying amount relate solely to FX differences and changes in accruals. There were no changes in principal.

In thousands of Serbian Dinars	
1 January 2018	**1,184,958**
Change in accruals	18
FX differences	(2,781)
31 December 2018	**1,182,194**
Change in accruals	(93)
FX differences	(6,018)
31 December 2019	**1,176,083**

19 Share Capital

In thousands of Serbian Dinars except for number of shares	Number of outstanding shares [in thousands]	Ordinary shares	Total
At 1 January 2018	3,631	3,631,200	**3,631,200**
New shares issued	-	-	**-**
At 31 December 2018	3,631	3,631,200	**3,631,200**
New shares issued	-	-	**-**
At 31 December 2019	**3,631**	**3,631,200**	**3,631,200**

The total authorised number of ordinary shares is 3,631 thousand (2018: 3,631 thousand shares), with a par value of RSD 1,000 per share (2018: RSD 1,000 per share). All issued ordinary shares are fully paid.

At 31 December 2019, there were no treasury shares of the Bank in the balance sheet (2018: none).

20 Interest Income and Expense

In thousands of Serbian Dinars	2019	2018
Interest income calculated using EIR method		
Interest income from RSD assets		
Loans to customers	98,394	88,181
Loans to banks and other financial institutions	9,789	6,424
Securities at FVOCI	75,684	94,607
Total interest income from RSD assets	**183,867**	**189,212**
Interest income from foreign currency assets		
Loans	13,657	13,957
Deposits in banks	85	258
Total interest income from foreign currency assets	**13,742**	**14,215**
Total interest income calculated using EIR method	**197,609**	**203,427**
Interest expense		
Interest expense from RSD liabilities		
Deposits from customers	28,822	19,836
Total interest expense from RSD assets	**28,822**	**19,836**
Interest expense from foreign currency liabilities		
Subordinated debt	2,886	2,757
Deposits from customers	19,295	22,105
Lease liabilities	4,254	-
Total interest expense from foreign currency assets	**26,435**	**24,862**
Total interest expense	**55,257**	**44,697**
Net interest income	**142,352**	**158,730**

21 Fee and Commission Income and Expense

In thousands of Serbian Dinars	2019	2018
Fee and commission income		
- Domestic payment transactions	9,120	7,620
- International payment transactions	1,896	1,502
- Other	561	1,712
Total fee and commission income from contracts with customers	**11,577**	**10,833**
- Financial guarantees issued	19,974	16,427
Total fee and commission income from activities out of the scope of IFRS 15	**19,974**	**16,427**
Total fee and commission income	**31,551**	**27,260**
Fee and commission expense		
- Domestic payment transactions	1,608	1,438
- International payment transactions	3,018	2,418
- Other	367	867
Total fee and commission expense	**4,993**	**4,723**
Net fee and commission income	**26,558**	**22,537**

22 Other Operating Income

In thousands of Serbian Dinars	2019	2018
Income from services	18,671	12,399
Total other operating income	**18,671**	**12,399**

Income from services referes to advisory services, mainly success fee earned from contracts with customers.

23 Net expenses on impairment of financial assets not measured at FVTPL

In thousands of Serbian Dinars	2019	2018
Modification losses	-	6,212
Net ECL expenses on financial assets at AC	10,083	16,820
Net expense (income) from reversals of ECL on off-balance sheet items	1,073	(1,497)
Net expense (income) from reversals of ECL on financial assets at FVOCI	(107)	(805)
Net expense on written-off financial assets	-	206
Net expenses on impairment of financial assets not measured at FVTPL	**11,049**	**20,937**

24 Salaries, salary compensations and other personnel expenses

In thousands of Serbian Dinars	**2019**	**2018**
Net salaries	139,734	196,628
Contributions on salaries	18,789	22,254
The cost of compensation for members of the BoD	5,182	4,263
(Income) / expenses from (cancellation) / additional provisions for annual leave and pension (IAS 19)	(58)	4,725
Other personnel expenses	3,921	3,901
Total salaries, salary compensations and other personnel expenses	**167,568**	**231,771**

25 Depreciation and amortisation expenses

In thousands of Serbian Dinars	**2019**	**2018**
Depreciation of Premises and Equipment	40,975	42,831
Depreciation of right-of-use assets	24,286	-
Amortization of intangible assets	49,220	46,665
Total depreciation and amortisation expenses	**114,481**	**89,496**

26 Other expenses

In thousands of Serbian Dinars	**2019**	**2018**
Facility expenses	16,639	44,103
Information systems expenses	69,994	67,160
Professional services	13,849	20,599
Marketing	3,059	10,101
Deposit insurance agency	11,046	7,304
Insurance expenses	6,277	6,810
Short-term lease expense	8,119	-
Business trips	2,221	8,124
Memberships	1,737	1,653
Administrative taxes	1,027	1,616
Provisions for litigations	15,986	-
Other	9,756	15,409
Total other expenses	**159,710**	**182,879**

27 Income taxes

(a) Components of income tax expense / (benefit)

Income tax credit recorded in profit or loss for the year comprises the following:

In thousands of Serbian Dinars	2019	2018
Deferred tax credit	(9,077)	(4,313)
Income tax credit for the year	**(9,077)**	**(4,313)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Bank's 2019 income is 15% (2018: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Serbian Dinars	2019	2018
Loss before tax	**(261,962)**	**(326,783)**
Theoretical tax credit at statutory rate of 15%	(39,294)	(49,017)
Tax effect of items which are deductible for taxation purposes	(767)	(4,989)
Unrecognised DTA from tax loss	40,061	58,320
Other	-	(1)
Income tax credit	**9,077**	**4,313**
Effective tax rate	**-3.47%**	**-1.32%**

(c) Tax loss carry forwards

The Bank has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards as presented below. The tax loss carry forwards expire as follows:

In thousands of Serbian Dinars

Year of the loss	Amount of the loss	Utilized previously unrecognized loss	Remaining unrecognized tax loss carry forward	Year of expiry of tax loss carry forward
2015	317,942	-	317,942	2020
2016	485,393	-	485,393	2021
2017	536,116	-	536,116	2022
2018	388,802	-	388,802	2023
2019	267,072		267,072	2024
Total	**1,995,325**	**-**	**1,995,325**	

27 Income taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Serbia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In thousands of Serbian dinars	**1 January 2019**	**Credited to profit or loss**	**31 December 2019**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(9,458)	9,458	-
Provision for retirement benefits	381	(381)	-
Net deferred tax (liability)	**(9,077)**	**9,077**	**-**

As at 31 December 2018, net deferred tax liabilities related to temporary differencies on premises and equipment nad provisions for retirement benefit amounted to RSD 9,077 thousand, with deferred tax credited to profit or loss of RSD 4,314 thousand.

28 Reconciliation of Liabilities Arising from Financing Activities

The Bank did not have any cash flows from liabilities arising from financing activities in 2019 and 2018. The only movement in the subordinated debt was solely from foreign currency translation and changes of accruals, as disclosed in note 18.

29 Financial Risk Management

The risk management function within the Bank is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the balance sheet. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring and the associated loss ratios.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by borrower and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Bank established credit committee that is responsible for approving credit limits for individual borrowers. Credit committee reviews and approves limits below EUR 1,000 thousand, as regulated by the respective Board of Director decision. Credit committee meets when required.

The Bank's Board of Directors reviews and approves limits above EUR 1,000 thousand, based on recommendation of the Bank's credit committee and its prior approval.

Loan applications originating with the relevant client relationship managers are passed on to the credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the relevant functions in the Bank based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Bank's Executive Committee.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies two approaches – an internal rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

29 Financial Risk Management (Continued)

Master scale credit risk grade	Corresponding internal ratings	Corresponding PD interval for loans to customers and financial institutions with no external rating	Corresponding PD interval for loans to financial institutions with external rating	Corresponding PD interval for exposure to sovereign institutions
Excellent	A1, A2, B1	0,24% – 0,67%	0,24% – 0,67%	0,00% - 0,51%
Good	B2, V1	0,87% - 2,68%	0,87% - 2,68%	0,51% - 2,62%
Satisfactory	V2	8,57%	3,63% - 8,57%	2,62% - 11,71%
Special monitoring	G	19,52%	19,52%	11,71%
Default	D	100%	100%	100%

Moody's ratings ranging from Aaa to A3 are not mapped to internal ratings as it is considered that in the Republic of Serbia there are no financial assets of comparative quality to the respective ratings.

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The internal rating system is designed internally and ratings are estimated by management. Bank has used expert judgment-based model as credit risk estimation technique. In such model, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.

The Bank applies internal rating model for measuring credit risk for the following financial assets: loans to companies, exposures to sovereign and exposures to banks and other financial institutions.

The rating model is regularly reviewed by Risk Department, backtested on actual default data and updated, if necessary. External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: interbank placements, loans to sovereigns and investments in debt securities (government).

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

29 Financial Risk Management (Continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committen amounts to an on-balance sheet exposure within a defined period. The Bank's management estimates that 12-month and lifetime CCFs are materially the same. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates are not yet modelled in the manner to specifically consider *forward looking information.* The reason lies in the fact that due to the Bank's size, length of operation and quality of loan portfolio (low number of defaults) it has not been possible to conclude on the impact of key macroeconomic variables on credit risk. In the future, the Bank has foreseen taking into account the following macroeconomic variables as minimum: GDP growth rate, unemployment rate, consumer price index and reference interest rates for analysing and modelling impact of these on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- Upon assessing the financial position, i.e. the creditworthiness of the borrower, the Bank determines that the borrower is unable to settle its liabilities in full without the activation of collateral, regardless of whether or not the borrower meets its liabilities in a timely manner;
- Default on liabilities has occurred, in accordance with the NBS decision governing the capital adequacy of banks;
- Bankruptcy proceedings have been initiated against the client;
- The Bank has initiated judicial proceeding against the client;
- The borrower (entrepreneur) has terminated his/her registered activity with the Serbian Business Registers Agency, regardless whether it defaults on its contractual payments to the Bank.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months This period of six months has been determined based on the expert judgment and industry best practice.

29 Financial Risk Management (Continued)

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For loans to companies, SICR is assessed on an individual basis by monitoring the triggers stated below. For other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank decided not to use the low credit risk assessment exemption for investment grade financial assets. Hence, even assets of an investment grade are assessed whether there has been a SICR.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

- 30 days past due;
- award of risk grade "Special monitoring" and inclusion of loan into a watch list according to the internal credit risk monitoring process;
- restructuring of the performing loan due to increased credit risk;
- decrease of rating from categories A, B or V1 to category V2, according to the Bank's procedure on Classfication of balance sheet assets and off-balance sheet items.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed, all in accordance with Bank's procedure on Management of loans with increased credit risk and bad loans management.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings. The Bank performs an assessment on an individual basis for the following types of exposure: credit-impaired financial assets which are above RSD 3,000,000 for legal entities and RSD 1,000,000 for private individuals, agriculture producers and entrepreneurs. The Bank performs an assessment on a portfolio basis for all the financial assets that are not credit-impaired and if credit-impaired then below the threshold specified previously.

The Bank performs assessments based on external ratings for interbank loans, debt securities issued by the banks and loans issued to sovereigns, if external ratings are available.

29 Financial Risk Management (Continued)

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Analysis Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristic is credit risk rating. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank calculates lifetime PDs using the extrapolation of 12-month PDs based on migration matrixes.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit lines of corporate customers and for financial guarantees is defined based on expert judgment and regulatory guidelines. CCF for overdrafts is defined as 0% since the Bank may withdraw limits to the customers at any time.

29 Financial Risk Management (Continued)

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government and institutions exposures, if available.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs should incorporate supportable forward-looking information. The Bank did not incorporate forward-looking information in the ECL models. As the Bank has relatively short operating history, Bank's loan portfolio contains a relatively small number of clients/parties and number of clients in status default until end 2019 has been insignificant, the Bank analysis of impact of economic variables on the credit risk variables (PD, LGD and EAD) has not yielded the meaningful conclusion – i.e. the relationship/regression was not established between the variables.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rates, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

With the aim to protect against the currency risk, the Bank monitors the foreign exchange rates' trends in the financial market on the daily basis and implements the policy of low exposure to the currency risk. Treasury department monitors the trends in the foreign exchange market on the daily basis and manages the foreign exchange position of the Bank in its entirety and per individual significant currencies.

Asset and Liability Committee proposes measures to the Executive Committee of the Bank for adjustments of FX assets and liabilities to provide for favourable foreign exchange position on each currency segment. An independent risk management department performs independent analysis of the foreign exchange management process through monitoring of the compliance with the established system of limits.

Currency risk management is supplemented with the monitoring of:

- Impact of increase/decrease of FX items of assets/liabilities to the open position and foreign exchange risk indicator, and
- Sensitivity of income statement of the Bank to different scenarios of variations in foreign exchange rates. Sensitivity of income statement is the effect of assumptions regarding the changes in foreign exchange rates to net income from fluctuations in foreign exchange rates.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2019				**At 31 December 2018**			
In thousands of Serbian Dinars	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
EUR	3,197,689	3,203,464	-	(5,775)	3,061,556	3,018,729	-	**42,827**
USD	1,876	2,797	-	(921)	1,850	2,756	-	**(906)**
Total	**3,199,565**	**3,206,261**	**-**	**(6,696)**	**3,063,406**	**3,021,485**	**-**	**41,921**

29 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

FX risk (reasonable) stress test	At 31 December 2019		At 31 December 2018	
In thousands of Serbian Dinars	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
The effect of EUR strengtening by 2% on net income	(116)		857	
The effect of EUR weakening by 2% on net income	134		(838)	

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows, Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise, Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken,

The key tool used to measure and manage interest rate risk is the interest rate risk report with a standard analysis of the interest rate gap, the movement of indicators of economic value impact and the movement of indicators of net interest income impact,

The interest rate risk report is prepared at quarterly level, with a reporting date on the last day of the month, The Risk Management Department is responsible for presenting reports, analyzes and recommendations (if necessary) to the ALCO Committee for taking certain measures in order to reduce the interest rate risk, The Risk Management Department is responsible to propose the adoption of key risk indicators and their limits for managing the interest rate risk to the ALCO and the Executive Committee of the Bank,

The Bank's compliance with the limit values ensures adequate management of interest rate risk, maintaining the Bank in the risk appetite zone, as well as compliance with regulatory limits, The Bank Limit system consists of two levels, the first and second levels of the internal limit values, In a situation where the Risk Management Department determines that the first or second level of the internal limit has been exceeded, it is obliged to carry out an analysis of the causes that led to the overrun, In the shortest possible time, members of the ALCO are informed of the situation, At the quarterly level, the Board of Directors receives information on the Bank's exposure to interest rate risk, which includes information on the compliance of the Bank with the internal limits of the first and second levels,

Bank mitigates or reduces the exposure to interest rate risk either by natural protection or by taking the positions to secure protection, The Corporate Banking Department and Treasury Department are responsible for the implementation of mentioned activities respectively, in accordance with the conclusions of the ALCO Committee,

29 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks, The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Serbian Dinars	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non-monetary	Total
31-Dec-19							
Total financial assets	1,417,698	240,903	2,320,040	1,740,351	112,870	290,805	**6,122,667**
Total financial liabilities	1,106,847	439,316	2,366,633	411,178	-	238	**4,324,212**
Net interest sensitivity gap at 31 December 2019	**310,851**	**(198,413)**	**(46,593)**	**1,329,173**	**112,870**	**290,567**	**1,798,455**
31-Dec-18							
Total financial assets	2,166,427	731,268	1,639,483	756,097	-	369,390	**5,662,666**
Total financial liabilities	991,509	553,812	1,944,347	245,510	-	23,075	**3,758,252**
Net interest sensitivity gap at 31 December 2018	**1,174,918**	**177,456**	**(304,864)**	**510,587**	**-**	**346,316**	**1,904,414**

All of the Bank's debt instruments reprice within 5 years (2018: all reprice within 5 years).

At 31 December 2019, if interest rates at that date had been 100 basis points lower (2018: 100 basis points lower) with all other variables held constant, loss for the year would have been RSD 1,565 thousand (2018: RSD 3,833 thousand) higher, mainly as a result of lower interest income on variable interest assets.

Other price risk. The Bank does not have exposure to equity price risk.

The Bank is exposed to prepayment risk through providing fixed and variable rate loans, which give the borrower the right to repay the loans early. The Bank's current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2018: no material impact).

29 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2019 is set out below:

In thousands of Serbian Dinars	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	761,801	-	-	**761,801**
Derivative financial assets	-	-	-	**-**
Securities	1,914,906	-	-	**1,914,906**
Loans and receivables from banks and other financial organisations	310,746	566,835	2	**877,583**
Loans and receivables from clients	2,568,377	-	-	**2,568,377**
Other financial assets	9,197	7	-	**9,204**
Total financial assets	**5,565,027**	**566,842**	**2**	**6,131,871**
Financial liabilities				
Deposits and other liabilities to banks, other financial organisations and central bank	**703,644**	**-**	**-**	**703,644**
Deposits and other financial liabilities to clients	**1,996,614**	**326,174**	**121,697**	**2,444,485**
- current and settlement accounts	1,759,027	279,137	121,697	**2,159,861**
- term deposits	237,587	47,037	-	**284,624**
Subordinated liabilities	**-**	**-**	**1,176,083**	**1,176,083**
Total financial liabilities	**2,700,258**	**326,174**	**1,297,780**	**4,324,212**
Net position in on-balance sheet financial instruments	**2,864,769**	**240,668**	**(1,297,778)**	**1,807,659**

Assets and liabilities have been based on the country in which the counterparty is located.

29 Financial Risk Management (Continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018 is set out below:

In thousands of Serbian Dinars	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	548,470	-	-	**548,470**
Derivative financial assets	-	-	-	**-**
Securities	1,988,454	-	-	**1,988,454**
Loans and receivables from banks and other financial organisations	563,240	437,140	1	**1,000,387**
Loans and receivables from clients	2,125,356	-	-	**2,125,356**
Other financial assets	10,210	17	402	**10,629**
Total financial assets	**5,235,729**	**437,163**	**404**	**5,673,295**
Financial liabilities				
Deposits and other liabilities to banks, other financial organisations and central bank	276,405	-	-	**276,405**
Deposits and other financial liabilities to clients	**1,932,910**	**237,619**	**129,124**	**2,299,653**
- current and settlement accounts	422,328	237,619	81,846	**741,793**
- term deposits	1,510,582	-	47,278	**1,557,860**
Subordinated liabilities	-	-	1,182,194	**1,182,194**
Total financial liabilities	**2,209,315**	**237,619**	**1,311,318**	**3,758,252**
Net position in on-balance sheet financial instruments	**3,026,414**	**199,543**	**(1,310,915)**	**1,915,043**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considersation of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements, The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Serbia.

29 Financial Risk Management (Continued)

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department and Risk Management Department.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the balance sheet because the amount in the statement of financial position is based on discounted cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

29 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2019 is as follows:

In thousands of Serbian Dinars	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and assets held with the central bank	761,801	-	-	-	-	**761,801**
Securities	-	-	423,210	1,378,826	112,870	**1,914,906**
Loans and receivables from banks and other financial organisations	567,143	204,745	100,000	6,000-	-	**877,888**
Loans and receivables from clients	16,015	408,955	948,874	1,210,947	-	**2,584,791**
Total	**1,344,959**	**613,700**	**1,472,084**	**2,595,773**	**112,870**	**6,139,386**
Liabilities						
Deposits and other liabilities to banks, other financial organisations and central bank	61,861	200,000	220,000	221,783	-	**703,644**
Deposits and other financial liabilities to clients	**1,045,828**	**358,573**	**969,611**	**70,474**	-	**2,444,485**
- current and settlement accounts	1,045,828	-	-	-	-	1,045,828
- term deposits	-	358,573	969,611	70,474	-	**1,398,657**
Subordinated liabilities	155	-	-	-	1,175,928	**1,176,083**
Gross loan commitments	60,560	-	-	-	-	**60,560**
Payment guarantees	331,613	-	-	-	-	**331,613**
Other financial liabilities	-	-	-	-	143,638	**143,638**
Total potential future payments for financial obligations	**1,500,017**	**558,573**	**1,189,611**	**292,257**	**1,319,566**	**4,860,023**
Liquidity gap arising from financial instruments	**(155,058)**	**55,128**	**282,473**	**2,303,517**	**(1,206,696)**	**1,279,363**

29 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2018 is as follows:

In thousands of Serbian Dinars	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and assets held with the central bank	548,470	-	-	-	-	**548,470**
Securities	-	509,528	767,550	711,376	-	**1,988,454**
Loans and receivables from banks and other financial organisations	885,393	-	115,119	-	-	**1,000,512**
Loans and receivables from clients	116,376	253,009	949,849	810,442	-	**2,129,676**
Total	**1,550,239**	**762,537**	**1,832,518**	**1,521,818**	**-**	**5,667,112**
Liabilities						
Deposits and other liabilities to banks, other financial organisations and central bank	19,405	-	157,000	100,000	-	**276,405**
Deposits and other financial liabilities to clients	**999,119**	**559,630**	**625,207**	**145,629**	**-**	**2,329,584**
- current and settlement accounts	706,190	-	-	-	-	**706,190**
- term deposits	292,929	559,630	625,207	145,629	-	**1,623,394**
Subordinated liabilities	-	-	2,924	14,636	1,184,874	**1,202,434**
Gross loan commitments	78,919	-	-	-	-	**78,919**
Payment guarantees	502,112	-	-	-	-	**502,112**
Other financial liabilities	32,021	7,275	31,114	126,906	-	**197,316**
Total potential future payments for financial obligations	**1,631,575**	**566,905**	**816,245**	**387,171**	**1,184,874**	**4,586,770**
Liquidity gap arising from financial instruments	**(81,337)**	**195,632**	**1,016,273**	**1,134,648**	**(1,184,874)**	**1,080,342**

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement, The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

29 Financial Risk Management (Continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity, Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of RSD	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2019						
Financial assets	1,344,427	601,392	1,443,733	2,488,030	112,870	**5,990,452**
Financial liabilities	1,104,907	555,224	1,180,178	291,196	1,305,668	**4,437,173**
Net liquidity gap based on expected maturities	**239,520**	**46,168**	**263,555**	**2,196,834**	**(1,192,798)**	**1,553,279**
At 31 December 2018						
Financial assets	1,573,123	736,027	1,856,985	1,510,489	-	**5,676,624**
Financial liabilities	1,067,254	534,672	828,047	725,038	1,195,348	**4,350,359**
Net liquidity gap based on expected maturities	**505,870**	**201,354**	**1,028,937**	**785,451**	**(1,195,348)**	**1,326,264**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

30 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Serbia, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the National Bank of Serbia is monitored monthly, with reports outlining their calculation reviewed by the Executive Committee. Other objectives of capital management are evaluated quarterly.

Under the current capital requirements set by the National Bank of Serbia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The amount of capital that the Bank managed was RSD 3,631,200 thousand as of 31 December 2019 (2018: RSD 3,631,200 thousand), regulatory capital amounts to RSD 2,892,040 thousand (2018: RSD 3,033,941 thousand) and the Bank has complied with all externally imposed capital requirements throughout 2019 and 2018.

The composition of the Bank's capital calculated in accordance with the Basel Accord is as follows:

In thousands of Serbian Dinars	**2019**	**2018**
Tier 1 capital		
Share capital	3,631,200	3,631,200
(-) Loss	(1,769,192)	(1,516,307)
Revaluation reserves and other unrealised gains/losses	-	(180)
(-) Other intangible investment reduced by associated deferred tax liabilities	(145,896)	(192,532)
(-) Amount of required reserves for estimated losses on the balance sheet assets and off-balance sheet items of the bank that is deducted from the share capital of the bank	-	(70,186)
Total tier 1 capital	**1,716,112**	**1,851,995**
Tier 2 capital		
Revaluation reserves	-	-
Subordinated debt	1,175,928	1,181,946
Total tier 2 capital	**1,175,928**	**1,181,946**
Total capital	**2,892,040**	**3,033,941**
Capital adequacy ratio	**80.49%**	**91.70%**

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. At 31 December 2019, the Bank was engaged in litigation proceedings for which provision of RSD 15,986 thousand has been made as professional advice has indicated that it is likely that a loss will eventuate. Refer to Note 16.

Tax contingencies. The Management of the Bank is of the opinion that there is no risk of any tax implications on the financial position of the Bank and therefore has made no provisions related to this matter in these financial statements.

The Management has implemented internal controls to be in compliance with this transfer pricing legislation and has no reason to estimate any potential tax expenses related to this area.

Capital expenditure commitments. At 31 December 2019, the Bank has contractual capital expenditure commitments in respect of software and other intangible assets of RSD 1,957 thousand (2018: RSD 7,619 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

31 Contingencies and Commitments (Continued)

Future cash outlfows related to leases at 31 December 2019. Where the Bank is a lessee, the future cash outflows, to which the Bank is potentially exposed and that are not reflected in the lease liabilities at 31 December 2019 relate mainly to short-term leases with monthly payments and remaining lease term between 3 and 9 months. Rent expense recorded for such leases in 2019 is RSD 8,119 thousand.

Operating lease commitments at 31 December 2018. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases at 31 December 2018 are as follows:

In thousands of Serbian Dinars	**2018**
Not later than 1 year	43,155
Later than 1 year and not later than 5 years	146,979
Later than 5 years	-
Total operating lease commitments	**190,134**

Compliance with covenants. The Bank is not subject to any covenants relating to its borrowings.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Serbian Dinars	**2019**	**2018**
Total irrevocable loan commitments	**60,560**	**78,919**
Financial guarantees issued	331,613	502,112
Less: Provision for financial guarantees	(358)	(1,255)
Less: Provision for loan commitments	(36)	(27)
Less: Commitment collateralised by cash deposits	(10,000)	(14,223)
Total credit related commitments, net of provision and cash covered exposures	**381,779**	**565,526**

31 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2019 is as follows:

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Issued financial guarantees				
- Excellent	196,057	-	-	196,057
- Good	135,556	-	-	135,556
Unrecognised gross amount	331,613	-	-	331,613
Provision for financial guarantees	(358)	-	-	(358)
Loan commitments				
- Excellent	54,560	-	-	54,560
- Good	6,000	-	-	6,000
Unrecognised gross amount	60,560	-	-	60,560
Provision for loan commitments	(36)	-	-	(36)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

32 Offsetting Financial Assets and Financial Liabilities

The Bank did not set off financial assets and financial liabilities in the statement of financial position as at both 31 December 2019 and 31 December 2018.

33 Transfers of Financial Assets

The Bank did not perform transfers of financial assets in transactions that did or did not qualify for derecognition in the current nor prior periods.

34 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

	31-Dec-19					31-Dec-18				
In thousands of RSD	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets										
Cash and balances with the central bank	-	761,801	-	**761,801**	**761,801**	-	548,470	-	**548,470**	**548,470**
Loans and advances to banks and other financial institutions	-	-	877,583	**877,583**	**877,583**	-	-	1,000,386	**1,000,386**	**1,000,386**
Loans and advances to customers	-	-	2,435,858	**2,435,858**	**2,568,377**	-	-	2,058,591	**2,058,591**	**2,125,356**
Financial assets at FVOCI	-	1,914,906	-	**1,914,906**	**1,914,906**	-	1,988,454	-	**1,988,454**	**1,988,454**
Liabilities										
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	703,644	**703,644**	**703,644**	-	-	276,405	**276,405**	**276,405**
Deposits and other liabilities to customers	-	1,045,828	1,384,815	**2,430,643**	**2,444,485**	-	725,611	1,555,326	**2,280,937**	**2,299,653**
Subordinated liabilities	-	-	1,162,182	**1,162,182**	**1,176,083**	-	-	1,157,613	**1,157,613**	**1,182,194**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Note 3 for valuation method applied by the Bank in determining fair value of financial assets at FVOCI.

35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (d) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

35 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

In thousands of Serbian Dinars	Debt instruments at FVOCI	AC	Total
Assets			
Cash and assets held with the central bank	-	761,801	**761,801**
Derivative financial assets	-		**-**
Securities	1,914,906	-	**1,914,906**
Loans and receivables from banks and other financial organisations	-	877,583	**877,583**
Loans and receivables from clients	-	2,568,377	**2,568,377**
Other financial assets	-	444	**444**
Total financial assets	**1,914,906**	**4,208,205**	**6,123,111**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In thousands of Serbian Dinars	Debt instruments at FVOCI	AC	Total
Assets			
Cash and assets held with the central bank	-	548,470	**548,470**
Derivative financial assets	-		**-**
Securities	1,988,454	-	**1,988,454**
Loans and receivables from banks and other financial organisations	-	1,000,386	**1,000,386**
Loans and receivables from clients	-	2,125,356	**2,125,356**
Other financial assets	-	1,705	**1,705**
Total financial assets	**1,988,454**	**3,675,917**	**5,664,371**

As of 31 December 2019 and 31 December 2018, all of the Bank's financial liabilities except for derivatives were carried at AC.

36 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. For the Bank, in particular, related parties are considered to be parent company and the entities that constitute for the Bank and parent company: (i) a subsidiary, (ii) an associate, (iii) a joint venture, and (iv) a person or his close family members, if that person is a member of the key management personnel. The Bank considers as key management personnel all the members of the Bank's Board of Directors and of the Bank's Executive Committee.

At 31 December 2019 and 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of RSD

Balance sheet as at 31 December	**2019**	**2018**
Subordinated debt	1,176,083	1,182,194

The income statement items with related parties were as follows:

In thousands of RSD

Income statement for the year	**2019**	**2018**
Interest expense (subordinated debt)	2,886	2,757

In thousands of Serbian Dinars	**2019**	**2018**
Gross salaries	**44,766**	**72,727**
Executive board	35,940	65,988
Board of directors	8,826	6,739
Net salaries	**35,333**	**60,893**
Board of directors	30,152	56,634
Board of directors	5,181	4,259

37 Events after the End of the Reporting Period

Late in 2019 the news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020, the virus spread globally and its negative impact gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the date of issuing these financial statements, there has been no discernible impact on the Bank's operations, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

There were no significant events after the end of the reporting period that would require corrections or disclosures to the financial statements of the Bank for 2019.

38 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
ALCO	Asset and Liability Committee
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
HTM	Held To Maturity
IFRS	International Financial Reporting Standard
L&R	Loans and Receivables
LGD	Loss Given Default
LTV	Loan to Value
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest

Nikola Mihailović
President

Dragana Bojin
Chief Accountant

Mirjana Garapić-Zakanyi, Member

ANNUAL REPORT FOR 2019

MIRABANK A.D. BELGRADE

March 2020

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1. Introduction

1.1 Key financial indicators

Mirabank a.d. Beograd			
in thousands RSD	**2019**	**2018**	**Change**
Income statement			
Net interest income	142,352	158,730	-10%
Net fee and commission income	26,558	22,537	18%
Other non-interest income	18,671	12,399	51%
Operating expenses	(441,584)	(503,508)	-12%
Net impairment loss on financial assets	(11,049)	(20,937)	-47%
Profit (loss) after tax	(252.885)	(322,469)	-22%
Balance sheet			
Loans and receivables from banks and other financial organizations	877,583	1,000,386	-12%
Loans and receivables from customers	2,568,377	2,125,356	21%
Deposits and other liabilities to banks, other financial organizations and central bank	703,644	276,405	155%
Deposits and other financial liabilities to clients	2,444,485	2,299,653	6%
Equity	1,932,805	2,133,010	-9%
Total balance sheet assets	6,407,798	5,937,892	8%
Capital adequacy			
Total risk weighted assets	3,593,227	3,308,590	9%
Regulatory capital	2,892,040	3,033,941	-5%
Capital adequacy ratio	80.49%	91.70%	-11 pp
Key performance indicators			
Cost/Income ratio	-235.41%	-259.99%	24 pp
ROA (Return on assets after tax)	-3.95%	-5.43%	1 pp
ROE (Return on equity after tax)	-13.08%	-15.12%	2pp
Loans to Deposits ratio	105.07%	92.42%	13 pp
Asset/Number of employees	177,994	169,654	5%
Cost of risk	0.41%	0.72%	-31 bp
Resources			
Number of employees	36	35	1
Number of branches	1	1	0

1.2 Macroeconomic Environment

Serbia's economic program continues to deliver strong results.

Annual inflation, at 1.9% at the end of December, remains in the lower half of the target band. Fiscal performance has remained strong. After the realized surplus in the two previous years, in 2019 there was deficit of the consolidated budget of 0.2% of GDP, which is a better result than the projected fiscal strategy. As a result, the share of public debt at the end of 2019 amounted to 52.0% of GDP (in 2018 public debt declined to around 54% of GDP).

In six years, Serbia has transformed to a low inflation and stable growing economy, with fiscal surplus, declining public debt, significantly reduced external imbalances and labour market recovery.

After strong GDP growth in 2018 of 4.4%, in 2019 GDP continued to grow reaching the similar growth rate of 4.2% (better than projected of 3.6%), as a result of rapid investment growth.

Following average inflation of 2% in 2018, inflation in 2019 finished at 1.9%, being within projected result by National Bank of Serbia. Inflation expectations anchored within the expected limits (3 ± 1.5%).

After two years of achieved surplus, in 2019 government budget turned to a deficit of 0.2%, still better than projected in Fiscal strategy. As a result public debt was 52% of GDP and declined by 18pp of GDP starting from 2015, with an improved currency structure.

These results were acknowledged by improved credit ratings (S&P and Fitch) during 2019 and additionally improved outlook (Moody's), as well as further decline in the country risk premium (at the minimum in December 2019). In 2018, a 30-month Policy Coordination Instrument with the IMF has been approved.

Macroeconomic stabilization and improvements to the business environment contributed to further FDI growth (EUR 7.3 bn in 2018 and 2019). Serbia ranked first on the Greenfield FDI list Performance Index for 2019 (Financial Times), which is monitoring Inflow of greenfield investment compared to the size of the economy.

Exports of goods and services continued to grow in 2019 (up 10.5%), driven by growth in exports of manufacturing, services and agriculture.

Lending activity continued in 2019 with a stable and sustainable growth trend, amounting to 9.8% in December.

The NPL resolution strategy (NBS and Government action plans) has led to a reduction in share of problematic loans by more than 70%, from 22.4% in August 2015 to 4.1% in December 2019. Reduction was mostly related to corporate loans – share of NPL was decreased from 25.9% to 3.4% in the same period.

The unemployment rate in Q3 2019 was for the first time at a single-digit level of 9.5%, which represents a decrease of 1.8 p.p. relative to the same period last year.

NBS encourages lending and fundng in local currency by ensuring low and stable inflation, maintaining relative stability of foreign exchange rates, through improvements in foreign exchange risk management in the private sector, and through other measures.

The table below shows the main macroeconomic indicators as reported/forecasted by the NBS.

Serbia									*NBS forecast
	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Real GDP, y-o-y %	-0.7	2.9	-1.6	1.8	3.3	2.0	4.4	4.2*	4.0
Private consumption, in %	-1.7	-1.7	-0.1	-0.3	1.3	1.9	3.5	3.3*	3.6
Private investment, in %	15.1	-7.7	-5.6	3.5	2.7	10.1	13.6	10.5*	6.2
Government consumption, in %	0.4	-2.1	0.9	-3.7	1.2	3.3	3.9	3.5*	3.5
Government investment, in %	7.6	-35.8	13.6	14.0	22.0	-6.4	33.6	31.8	8.0
Exports, in %	2.9	18.0	4.3	9.4	11.9	8.2	8.8	9.9*	10.2
Imports, in %	-0.6	6.5	5.1	4.0	6.7	11.1	11.2	10.7*	9.6
Unemployment Rate, in %	23.9	22.1	19.2	17.7	15.3	13.5	11.3	10.6	n/a
Nominal Wages, in %	9.0	6.2	1.4	-0.2	3.7	3.9	6.5	10.3	n/a
Money Supply (M3), in %	9.4	4.6	7.6	6.6	11.6	3.6	14.5	8.5*	7.6
CPI, in %	12.2	2.2	1.7	1.5	1.6	3.0	2.0	1.9	chart 2
National Bank of Serbia Key Policy Rate, in %	11.3	9.5	8.0	4.5	4.0	3.5	3.0	2.25	2.25
Current Account Deficit BPM-6 (% of GDP)	10.9	5.8	5.6	3.5	2.9	5.2	5.2	6.9	6.2

Table: Macroeconomic Overview; Source: NBS

1.3 Serbian Banking Sector

The stability of the banking sector has been preserved and further strengthened. Driven by NBS measures, the NPL share has been reduced to 4.10% (December 2019). The indicators of capital adequacy are even stronger after the implementation of Basel III standard in Serbia.

Serbia	2012	2013	2014	2015	2016	2017	2018	2019
Number of banks	32	30	29	30	31	29	27	26
Employees	28,394	26,380	25,106	24,257	23,847	23,055	22,830	23,087
Branches	2,243	1,989	1,787	1,730	1,719	1,627	1,598	1,598
Share of foreign banks, %	75.2	74.3	74.5	76.1	76.7	76.9	75.4	75.7
Assets (net), EUR m	25,322	24,827	24,545	25,059	26,253	28,440	31,931	34,769
Capital, EUR m	5,198	5,186	5,074	5,090	5,122	5,631	5,725	6,024
Loans (gross), EUR m	17,273	16,140	16,170	16,175	16,442	17,565	19,406	21,110
Of which gross NPL, EUR m	3,217	3,448	3,483	3,491	2,800	1,730	1,105	865
Gross NPL ratio, %	18.6	21.4	21.5	21.6	17.0	9.8	5.7	4.1
IFRS impairment of NPLs	50.0	50.9	54.9	62.3	67.8	58.1	60.2	60.7
Deposits, EUR m	14,936	15,067	15,637	16,523	18,242	19,926	23,115	25,197
Pretax Income[2], EUR m	102.5	-18.0	29.0	80.0	172.0	579.8	640.6	574.5
CAR, %	19.9	20.9	20.0	20.9	21.8	22.6	22.3	23.6
CET1 ratio, %	-	-	-	-	-	21.5	21.1	22.5
Leverage, %	-	-	-	-	-	10.1	12.6	13.7
Liquidity ratio	2.1	2.4	2.2	2.1	2.1	2.0	2.0	2.2
Liquidity coverage ratio, %	-	-	-	-	-	239.5	214.6	199.7
FX ratio, %	5.5	4.4	3.9	4.4	2.7	2.9	4.8	1.6
ROA, %	0.4	-0.1	0.1	0.3	0.7	2.1	2.2	1.7
ROE, %	2.0	-0.4	0.6	1.6	3.4	10.6	11.3	9.8
Net interest margin, %	4.3	4.2	4.3	4.3	3.9	3.7	3.6	3.3

Table: NBS Banking Sector Overview; Source: NBS

The key policy rate of 2.25% is at its lowest in the inflation targeting regime. The previous easing of monetary policy was reflected in a further reduction in interest rates on loans denominated in local currency. The lending activity trend of stable and sustainable growth continued in 2019 and in December reached the level of 9.8%. The structure of lending contributes to sustainable economic growth – significant growth of investment loans to the corporate and housing loans to retail.

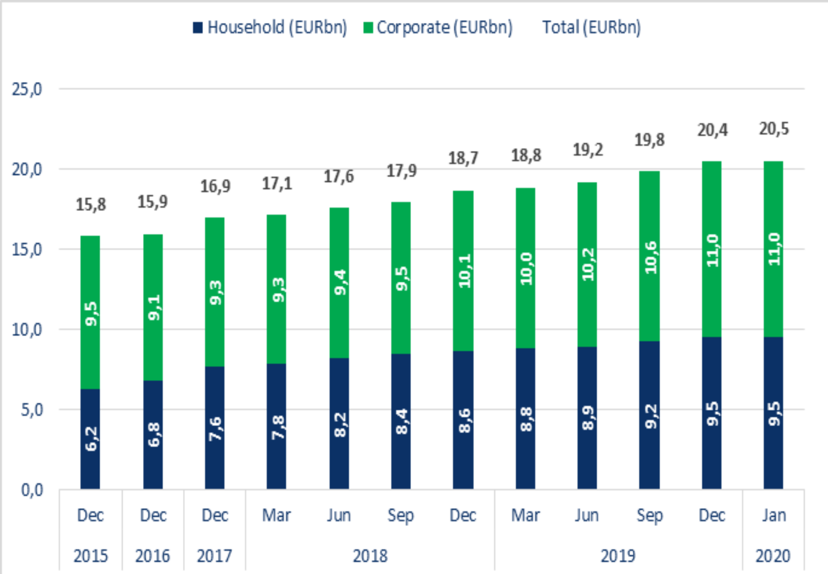


Chart: Loans to Corporate Sector and Household Sector Source: NBS

Lending to the corporate sector has been recording a positive trend since mid-2017. Since the beginning of H2 2019 crorporate loans provide the largest contribution to growth in lending activities (in December 2019 4.9 p.p.). Increase in corporate loans (9.5% in December 2019) was mainly driven by increase in investment loans of EUR 1 billion at annual level. Starting from May 2019 investment loans participated in loan structure with 45.2%, followed by working capital loans with 39.1% in December 2019.

Interest rates in 2019 in household sector and corporate sector continued to decrease both in local and foreign currency (EUR), as shown in the graphs below.

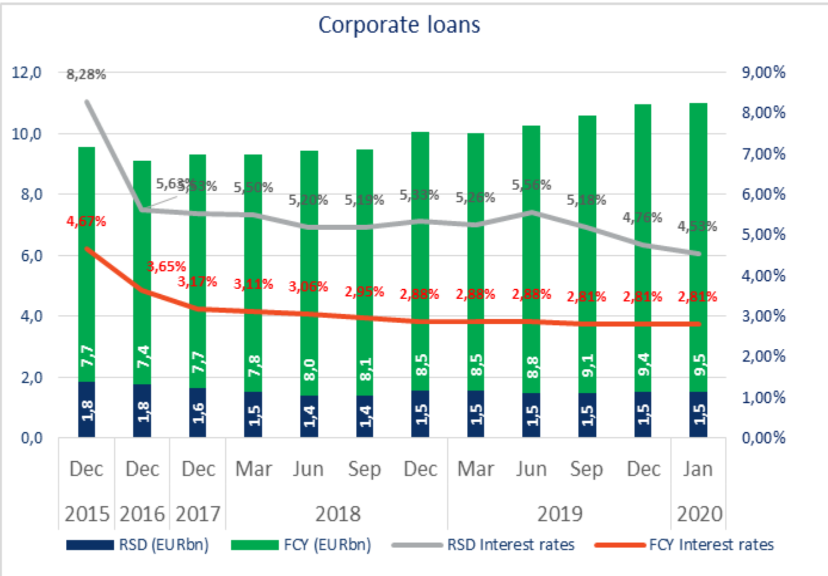


Chart: Loans to Corporate Sector – Currencies and Interest; Source: NBS

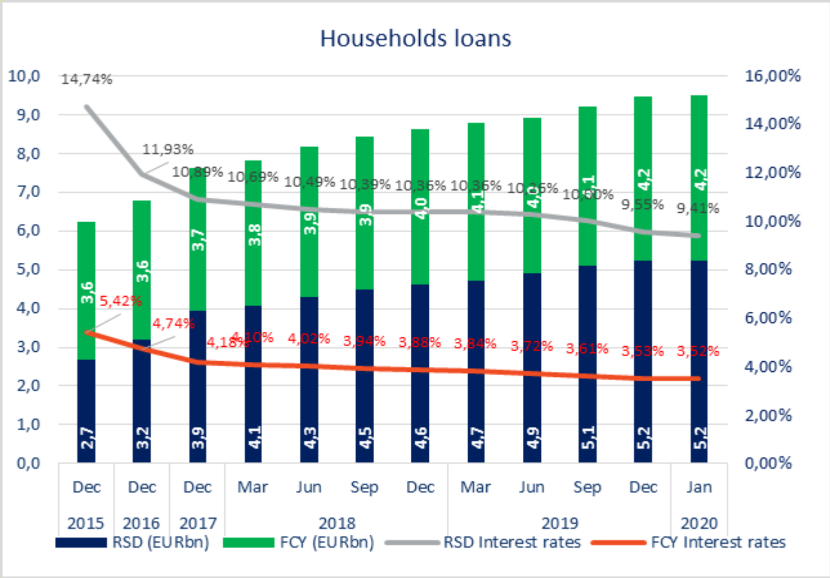


Chart: Loans to Household Sector – Currencies and Interest Rates; Source: NBS

The main source of bank funding in Serbia consist of received deposits that include both household and corporate deposits. Despite historically low interest rates on deposits, the stability of household and corporate deposits is present in financing structure, with a share of 46% and 27% in total liabilities at the end of December 2019, respectively.

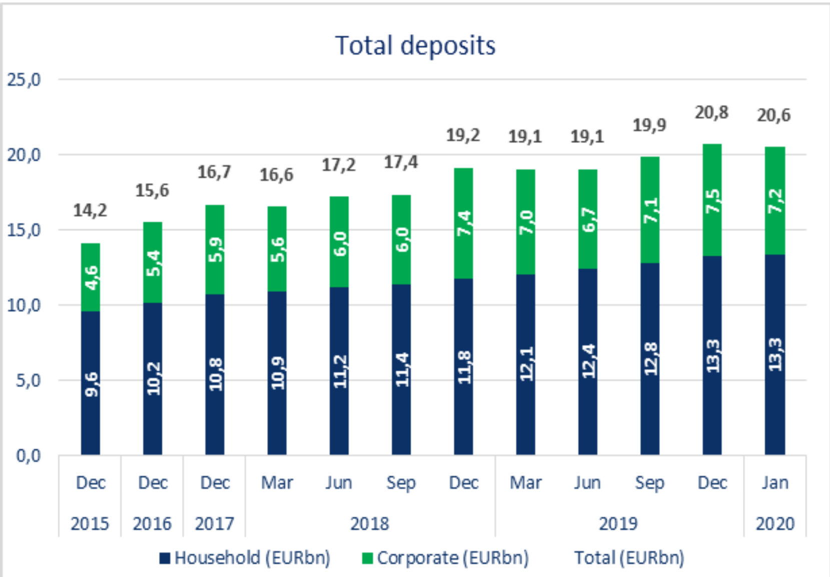


Chart: Corporate and Household Deposits; Source: NBS

In 2018 household depostis in local currency recorded strong growth of 22.2%, which has continued to 2019 with increase of 18,5 bn dinars (over 30%) with dinar savings depostis reaching a new maximum of 79.0 bn dinars in December (i.e. 79.6 bn dinars including non-resident accounts).

Interest rates on household deposits remained on same levels compared to December 2018.

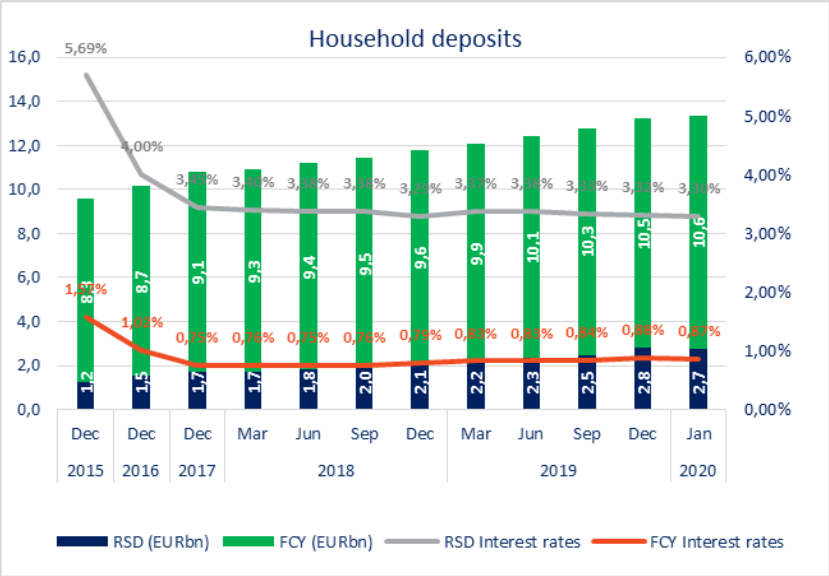


Chart: Deposits from Household Sector – Currencies and Interest Rates; Source: NBS

Interest rates on corporate depostis in local currency had declining trend in 2019 in comparison to December 2018.

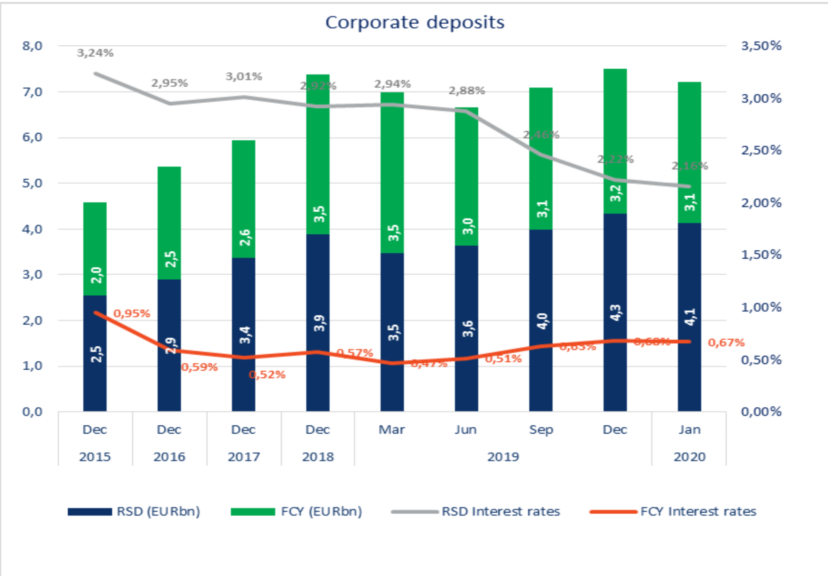


Chart: Deposits from Corporate Sector – Currencies and Interest Rates; Source: NBS

Corporate and household deposits in local currency increased by 15.8 p.p. compared to the end of 2012 and in December 2019 amount to 35.1%.

2 About Mirabank

2.1 Establishment

The founder of Mirabank a.d. Beograd (hereinafter: the Bank), Duingraaf Financial Investments B.V., Hoogoorddreef 15, 1101BA Amsterdam, the Netherlands (hereinafter: the Founder), obtained the preliminary permit to incorporate the Bank with the Decision of the National Bank of Serbia No. IO NBS 32 dated August 18, 2014.

The National Bank of Serbia issued a Decision No. IO NBS 58 dated December 16, 2014, thus granting the operating license to the Bank.

Upon obtaining the approval from the National Bank of Serbia for the acts of the Founding Assembly of the Bank (the Decision on Appointment of the President and Members of the Board of Directors of the Bank, the Decision on Appointment of the President and Members of the Executive Board of the Bank, the Decision on the Adoption of the Articles of Association of the Bank, the Decision on the First Share Issue of the Bank, the Decision on the Adoption of the Strategy and Business Policy of the Bank), the Bank was registered with the Companies Registry based on the Decision of the Serbian Business Registers Agency BD 8779/2015 dated February 5, 2015.

The Founder of the Bank and the Bank are not members of the banking group. The initial capital of the Bank is EUR 15 million in RSD counter value; capital conversion was performed on April 6, 2015, upon opening of the Bank's account with the National Bank of Serbia, following which the Bank began conducting its operations through that account and payment transactions, and at the same time it initiated the reporting process to the National Bank of Serbia.

On May 11, 2016, with registration in the Central Securities Depository and Clearing House, the Bank's capital was increased through the II share issue in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, after which the total share capital of the Bank (along with the initial issue in the amount of RSD 1,790,700 thousand) amounted to RSD 3,631,200 thousand. Pursuant to the Decision BD 39191/2016 of May 16, 2016, the Business Registers Agency completed registration of changes/increase in share capital.

The headquarter of the Bank is in Belgrade, 1 Španskih boraca Street in Novi Beograd, and its operations are conducted in 1 branch office in the territory of the Republic of Serbia at the same address.

As at 31 December, 2019, the Bank had 36 employees (as at 31 December 2018 had 35 employees).

The Bank's Company registration number is 21080608. The Tax Identification Number assigned to the Bank is 108851504.

In 2019 the Bank did not acquire any Treasury Shares nor does it have any Treasury Stock (stock of its own shares).

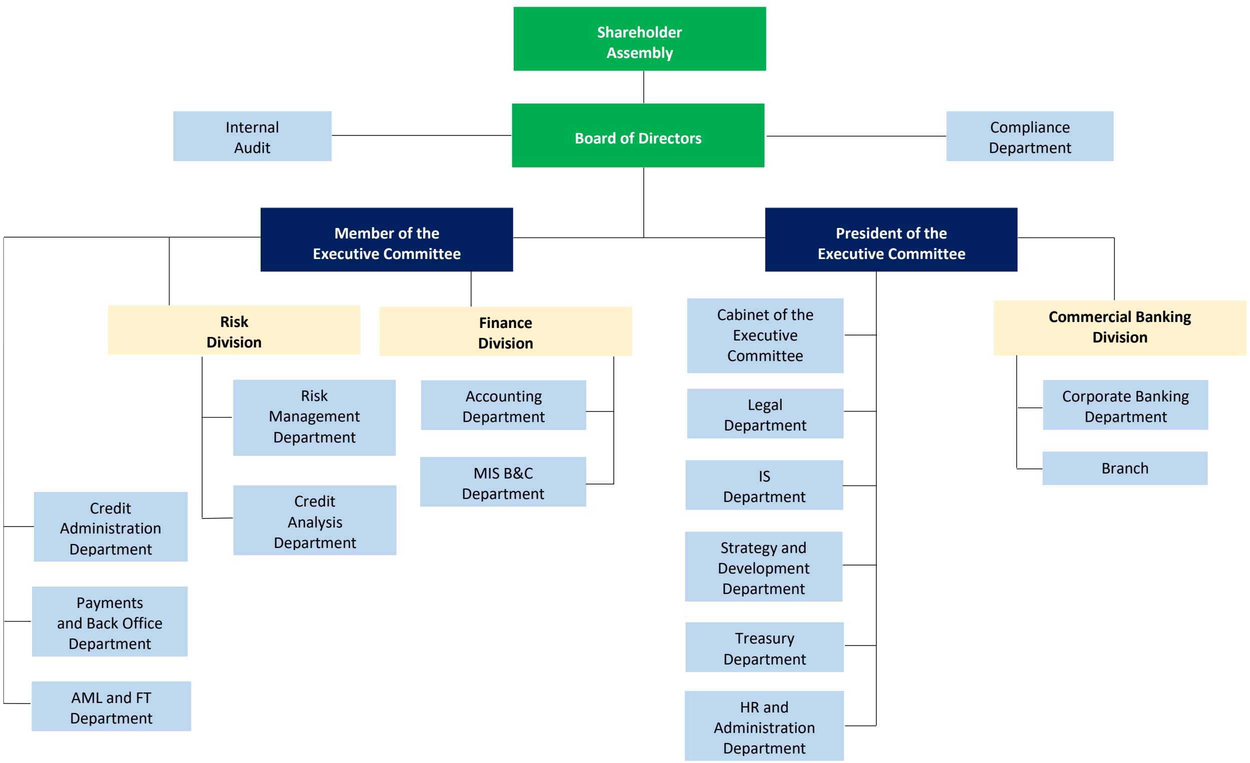
2.2 Major Strategic Objectives

As an ultimate roadmap to the Vision, the Bank's Management has defined top Strategic goals for the next three years:	**Mirabank's vision is to become recognised partner of trust withn target industries and focal point of UAE-Serbia economic relations**
	Focus – select a few industries where to build competitive advantage
	Community engagement – become fully embeded in the selected communities in order to generate opportunities instead of just searching for existing opportunities
	Develop clear USP (Unique Selling Proposition)

2.3 The team

Board of Directors	Mr. Fadhel AlAli, Chairman
	Mr. Majed Odeh, Member
	Mr. Mustafa Ghazi Kheriba, Independent member
	Mr. Murshed Abdo Murshed AlRedaini, Independent member
	Mr. Dejan Nikolić, Independent member
Executive Committee	Mr. Nikola Mihailović, President
	Ms. Mirjana Garapić Zakanyi, Member

2.4 Organization



2.5 Investments in Environmental Sustainability and Social Responsibility

Mirabank is committed to improving the environment through continuous digitalization of its processes and reducing resource consumption in the ordinary course of business. One of our main goals in this field was transformation of the documentation exchange with clients and third parties in order to reduce the use of paper printouts and paper forms into e-forms, both for internal communication as well as in exchange with clients and third parties. In instances where the paper work is an absolute necessity, we aim to selecting, whenever possible, recycled paper instead of the standard one.

In addition, one of our business focuses is renewable energy sector, where during 2019 Mirabank continued to support the largest wind farm project in the country and one of the largest in the region.

2.6 Research and Development

In 2019, the Bank continued to explore opportunities for further development of flexible and digitally prepared business models in order to promote efficiency, risk management and sustainable growth.

3 Products and Services

3.1 Corporate banking

Our main goal is to simplify our clients' dealing with their bank by providing as simple and efficient as possible solutions that cover their needs in timely and professional manner.

The palette of products and services we offer to corporate clients consists of the following:

Financing

- Working capital loans
- Investment loans

Cash manangement services

- Domestic payments
- International payments
- Current accounts
- O/N deposits
- Term deposits
- FX operations
- E-banking services

Documentary business

- Letters of Guarantee
- Letters of Credit

Advisory services

- M&A advisory

3.2 Private individuals banking

As each client is unique, we tailor our offers and services to your specific needs, taking all aspects carefully into account. Clients value our personalised approach, reliability as a partner, and the unique experience we deliver.

Products and services offered to private individuals are the following:

Account manangement services
- Current accounts (RSD and FX)
- E-banking services
- Mobile banking services

Deposits
- A vista savings
- Term deposits

4 Our Business Focus 2020-2022

Mirabank 2022 vision goals are focused on building reputation, proving self-sustainability and showing potential for further growth. Bank looks to develop on the opportunity to become recognised as partner of trust within selected industries and focal point of UAE – Serbia economic relations.

Bank aims to increase loan portfolio, secure stable funding, improve margins and develop cash management activities in order to increase commission income.

5 Risk Management

5.1 Risk Profile and Risk Appetite

Key objectives of the Bank's Risk Management System is to identify the most relevant risks that the Bank may be exposed to and to align its business plans and exposure to risks as the direct result of said plans with a targeted, i.e. planned risk appetite. Bank strives to optimise risk-taking decisions vis-a-vis expected levels of return, as well as to ensure that a strong and independent control function has been established within the Bank, ready to address the organisation's challenges as well as the external environment and to ensure that business growth is adequately supported by an efficient risk management infrastructure.

Throughout its performance, the Bank actively undertakes and manages risks, relying on the following principles:

- Level of risk undertaken is within the Bank's risk appetite and tolerance toward risk;
- All risk has to be approved through the Risk Management System;
- Reward from the business venture should compensate for the risk relevant to said venture;
- Risk is to be continuously monitored; and
- Risk conscience is to be promoted and the risk management culture is to be strengthened, as it contributes to strengthening the Bank's resilience.

Under risk appetite, the Bank considers its assessment of the structure and levels of all risks to which the Bank is exposed or may be exposed in its operations. The Bank's Business Strategy envisages operations that will inevitably affect the Bank's exposure to a particular set of risks. Key risks to which the Bank is exposed are credit risk, liquidity risk, operational risk, interest rate risk, FX risk and others.

The Bank's risk appetite is considered the level of risk the Bank intends to take on in achieving its business strategy and strategic objectives. Risk tolerance is understood as the highest acceptable level of risk the Bank takes on in its operations.

The ability to take risks depends on the Bank's financial, liquidity and capital situation, i.e. constraints. The willingness to take risks depends on the Bank's shareholder perspective concerning its profile and positioning.

The Bank's risk appetite is formulated as a function of the needed regulatory capital for all risks it is exposed to, as well as a function of needed regulatory capital for individual risks the Bank exposes itself to. A formulated risk appetite sets the capacity of the Bank to assume risks in its business activities.

5.2 NPLs & Collection

In its Risk Management Strategy the Bank has determined its long-term objectives concerning the level of distressed assets. The Bank's distressed assets are its non-performing exposures as defined by the Credit Risk Management Policy, which is in compliance with the NBS Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items. The Bank has determined the basic principles of Distressed Asset Management, and the highest acceptable level of distressed assets.

As at 31 December 2019, the Bank had one non-performing loan (NPL). For the strategy planning period, NPLs are planned at a relatively low level (lower than the average for Serbia's banking sector). This represents one of the aims and most important principles of Distressed Asset Management.

The Bank uses wide spectar of credit risk management techniques to keep the NPL level in line with the defined levels, such as well defined credit process, robust credit analysis, approval of exposures to clients in relation to their credit capacity, strict monitoring of credit exposures post disbursement, early detection of deteriorating clients, well structured collection process, requirements with regard to credit protection instruments and other.

For the purpose of effective Distressed Assets Management, Bank has designated a position within its organization structure specialized in this area and has introduced set of internal acts that govern Bank activities and rules within this segment. Bank's Recovery Plan plays an important role in risk mitigation related to distressed asset management for all the risks arising from adverse developments of bank performance or external factors affecting the banking business.

6 Cash and balances with the central bank

In thousands of Serbian Dinars	**2019**	**2018**
In dinars		
Cash on hand	9,256	9,537
Current (gyro) account	296,005	283,110
Balances with NBS other than current (gyro) account and mandatory reserves	220,060	87
In foreign currency		
Cash on hand	18,610	13,872
Mandatory cash balances with NBS	217,870	241,864
Total cash and balances with the central bank	**761,801**	**548,470**

The table below discloses the credit quality of cash and balances with the central bank based on credit risk grades at 31 December 2019. Refer to Note 29 for the description of the Bank's credit risk grading system.

In thousands of Serbian Dinars	**Balances with the NBS, including mandatory reserves**
- Excellent	733,935
Total cash and balances with the central bank, excluding cash on hand	**733,935**

6 Cash and balances with the central bank (Continued)

The credit quality of cash and balances with the central bank at 31 December 2018, was as follows:

In thousands of Serbian Dinars	**Balances with the NBS, including mandatory reserves**
- Excellent	525,061
Total cash and balances with the central bank, excluding cash on hand	**525,061**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

The gyro account balance includes the RSD mandatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Mandatory Reserves Held with the NBS. In accordance with the said Decision, the mandatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. The reserve is thereafter held on the Bank's gyro account. In 2019 NBS paid interest on the balance of the Bank's mandatory RSD reserve at the annual interest rate of 1.25% until August, at 1.0% until November, and at 0.75% from December.

The mandatory foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Mandatory Reserves Held with the NBS. In accordance with the said Decision, the mandatory foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month. The mandatory foreign currency reserve rates remained unaltered during 2019 and equaled 20% for foreign currency deposits with maturities of up to 2 years and 13% for foreign currency deposits with maturities of over 2 years. The rate applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index was 100%.

The Bank is under obligation to maintain the average daily balance of the allocated foreign currency reserve in the amount of the calculated foreign currency mandatory reserve on the foreign currency accounts held with NBS. Foreign currency mandatory reserve is non interest bearing.

7 Loans and receivables from banks and other financial institutions

In thousands of Serbian Dinars	**2019**	**2018**
Correspondent accounts and overnight placements with other banks	566,876	437,161
Placements with other banks	206,220	443,504
Placement/deposits with other financial institutions	104,792	119,848
Less: Credit loss allowance	(305)	(126)
Total loans and receivables from banks and other financial organisations	**877,583**	**1,000,387**

7 Loans and receivables from banks and other financial institutions (Continued)

The Bank considers Correspondent accounts and overnight placements with other banks as well as Placements with other banks with original maturities of less than three months as equivalent to the category Cash and Cash Equivalents and for the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The Bank has recognized rather insignificant amount of credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

The following table contains an analysis of loans and receivables from banks and other financial institutions balances by credit quality at 31 December 2019 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 29 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other financial institutions balances. The carrying amount of loans and receivables from banks and other financial institutions balances at 31 December 2019 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Correspondent accounts and overnight placements with other banks					
- Excellent	566,876	-	-	-	566,876
Gross carrying amount	566,876	-	-	-	566,876
Credit loss allowance	(39)	-	-	-	(39)
Carrying amount	566,837	-	-	-	566,837
Placements with other banks					
- Excellent	206,220	-	-	-	206,220
Gross carrying amount	206,220	-	-	-	206,220
Credit loss allowance	(19)	-	-	-	(19)
Carrying amount	206,201	-	-	-	206,201
Placements with other financial institutions					
- Excellent	-	-	-	-	-
- Good	104,792	-	-	-	104,792
Gross carrying amount	104,792	-	-	-	104,792
Credit loss allowance	(247)				(247)
Carrying amount	104,545				104,545
Total loans and receivables from banks and other financial organisations (gross carrying amount)	**877,888**	**-**	**-**	**-**	**877,888**
Credit loss allowance	(305)	-	-	-	(305)
Total loans and receivables from banks and other financial organisations (carrying amount)	**877,583**	**-**	**-**	**-**	**877,583**

7 Loans and receivables from banks and other financial institutions (Continued)

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2018 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurements:

In thousands of Serbian Dinars	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Correspondent accounts and overnight placements with other banks					
- Excellent	437,161	-	-	-	**437,161**
Gross carrying amount	**437,161**	**-**	**-**	**-**	**437,161**
Credit loss allowance	(15)	-	-	-	(15)
Carrying amount	**437,146**	**-**	**-**	**-**	**437,146**
Placements with other banks					
- Excellent	443,504	-	-	-	**443,504**
Gross carrying amount	**443,504**	**-**	**-**	**-**	**443,504**
Credit loss allowance	(15)	-	-	-	(15)
Carrying amount	**443,488**	**-**	**-**	**-**	**443,488**
Placements with other financial institutions					
- Excellent	60,764	-	-	-	**60,764**
- Good	59,085	-	-	-	**59,085**
Gross carrying amount	**119,848**	**-**	**-**	**-**	**119,848**
Credit loss allowance	(96)	-	-	-	(96)
Carrying amount	**119,752**	**-**	**-**	**-**	**119,752**
Total loans and receivables from banks and other financial organisations (gross carrying amount)	**1,000,512**	**-**	**-**	**-**	**1,000,512**
Credit loss allowance	(126)	-	-	-	(126)
Total loans and receivables from banks and other financial organisations (carrying amount)	**1,000,387**	**-**	**-**	**-**	**1,000,387**

At 31 December 2019 and 31 December 2018, due from other banks balances are not collateralised.

The credit loss allowance for due from other banks recognised in 2019 is impacted by a variety of factors, as described below:

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

7 Loans and receivables from banks and other financial institutions (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount due from other banks between the beginning and the end of the annual period due to these factors:

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**
Loans and receivables from banks and other financial institutions								
At 31 December 2018	**(126)**	**-**	**-**	**(126)**	**1,000,512**	**-**	**-**	**1,000,512**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(586)	-	-	(586)	5,741,360	-	-	5,741,360
Derecognised during the period	338	-	-	338	(5,863,985)	-	-	(5,863,985)
Changes risk parameters	69	-	-	69	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	(179)	-	-	(179)	(122.625)	-	-	(122.625)
At 31 December 2019	**(305)**	**-**	**-**	**(305)**	**877,888**	**-**	**-**	**877,888**

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**
Loans and receivables from banks and other financial institutions								
At 1 January 2018	(591)	-	-	**(591)**	1,706,110	-	-	**1,706,110**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(192)	-	-	**(192)**	4,809,211	-	-	**4,809,211**
Derecognised during the period	671	-	-	**671**	(5,514,808)	-	-	**(5,514,808)**
Changes risk parameters	(14)	-	-	**(14)**	-	-	-	**-**
Total movements with impact on credit loss allowance charge for the period	465	-	-	**465**	(705,597)	-	-	**(705,597)**
At 31 December 2018	**(126)**	**-**	**-**	**(126)**	**1,000,512**	**-**	**-**	**1,000,512**

8 Securities

In thousands of Serbian Dinars	2019	2018
Debt securities at FVOCI	1,914,906	1,988,454
Total investments in debt securities	**1,914,906**	**1,988,454**

The table below discloses investments in debt securities at 31 December 2019 and 31 December 2018 by measurement categories and classes:

In thousands of Serbian Dinars	Debt securities at FVOCI 2019	Debt securities at FVOCI 2018
Serbian government bonds	1,914,906	1,988,454
Total investments in debt securities at 31 December (fair value)	**1,914,906**	**1,988,454**

(a) Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 29 or the ECL measurement approach.

In thousands of Serbian Dinars	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Serbian government bonds					
- Excellent	1,847,779	-	-	-	**1,847,779**
Total AC gross carrying amount	**1,847,779**	**-**	**-**	**-**	**1,847,779**
Less credit loss allowance	(3,670)	-	-	-	(3,670)
Fair value adjustment from AC to FV	70,797	-	-	-	70,797
Carrying value (fair value)	**1,914,906**	**-**	**-**	**-**	**1,914,906**
Total investments in debt securities measured at FVOCI (fair value)	**1,914,906**	**-**	**-**	**-**	**1,914,906**

8 Securities (Continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018. For the particular exposures, as at 31 December 2018 the fair value adjustment from AC to FV is positive and higher than calculated ECL allowance based on credit risk grades. In such case, the Bank recognizes expected credit loss in its income statement, without recognition of ECL allowance as deductible item from the AC, but rather as an increase of the relevant reserve in its equity position.

In thousands of Serbian Dinars	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Serbian government bonds					
- Excellent	1,972,933	-	-	-	**1,972,933**
Total AC gross carrying amount	**1,972,933**	**-**	**-**	**-**	**1,972,933**
Less credit loss allowance	(2,597)	-	-	-	(2,597)
Fair value adjustment from AC to FV	18,117	-	-	-	18,117
				-	
Carrying value (fair value)	**1,988,454**	**-**	**-**	**-**	**1,988,454**
Total investments in debt securities measured at FVOCI (fair value)	**1,988,454**	**-**	**-**	**-**	**1,988,454**

The debt securities at FVOCI are not collateralised. At 31 December 2019 debt securities at FVOCI have not been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds.

Movements in the credit loss allowance and in the gross amortised cost amount of Serbian government bonds at FVOCI were as follows.

	Credit loss allowance				Gross carrying amount			
In thousands of Serbian Dinars	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Serbian government bonds **At 31 December 2018**	**(2,597)**	**-**	**-**	**(2,597)**	**1,972,933**	**-**	**-**	**1,972,933**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(2,883)	-	-	(2,883)	1,150,263	-	-	**1,150,263**
Derecognised during the period	1,810	-	-	1,810	(1,275,418)	-	-	**(1,275,418)**
Total movements with impact on credit loss allowance charge for the period	(1,073)	-	-	**(1,073)**	(125,155)	-	-	**(125,155)**
At 31 December 2019	**(3,670)**	**-**	**-**	**(3,670)**	**1,847,778**	**-**	**-**	**1,847,778**

8 Securities (Continued)

In thousands of Serbian Dinars	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Serbian government bonds								
At 1 January 2018	(3,401)	-	-	**(3,401)**	1,359,740	-	-	**1,359,740**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(907)	-	-	**(907)**	863,785	-	-	**863,785**
Derecognised during the period	1,711	-	-	**1,711**	(250,591)	-	-	**(250,591)**
Total movements with impact on credit loss allowance charge for the period	804	-	-	**804**	613,194	-	-	**613,194**
At 31 December 2018	**(2,597)**	**-**	**-**	**(2,597)**	**1,972,933**	**-**	**-**	**1,972,933**

9 Loans and Advances to Customers

In thousands of Serbian Dinars	**2019**	**2018**
Gross carrying amount of loans and advances to customers at AC	2,584,791	2,129,676
Less credit loss allowance	(16,414)	(4,320)
Total carrying amount of loans and advances to customers at AC	**2,568,377**	**2,125,356**

The Bank does not hold a portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. As a result, all loans and advances were classified as at AC from the date of initial recognition. The carrying amount presented in the balance sheet best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2019 and 31 December 2018 are disclosed in the table below:

In thousands of Serbian Dinars	31-Dec-19 Gross carrying amount	Credit loss allowance	Carrying amount	31-Dec-18 Gross carrying amount	Credit loss allowance	Carrying amount
Loans to corporate customers						
Standard lending	2,584,791	(16,414)	**2,568,377**	2,129,676	(4,320)	**2,125,356**
Total loans and advances to customers at AC	**2,584,791**	**(16,414)**	**2,568,377**	**2,129,676**	**(4,320)**	**2,125,356**

Standard lending relates to loans issued to large commercial entities under the standard terms, mainly for working capital financing.

9 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period and comparative periods:

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**
Standard lending								
At 31 December 2018	**(4,320)**	**-**	**-**	**(4,320)**	**2,103,882**	**25,794**	**-**	**2,129,676**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(9,941)	(369)	(5,771)	**(16.081)**	(40,017)	40,017	-	**-**
New originated or purchased	3,142	46	-	**3,188**	2,510,974	(197)	4,608	**2,515,385**
Derecognised during the period	4,160	328	(3,689)	**799**	(1,951,040)	(98,218)	-	**(2,049,258)**
Changes in accrued interest								
Total movements with impact on credit loss allowance charge for the period	**(2,639)**	**5**	**(9,460)**	**(12,094)**	**519,917**	**(58,398)**	**4,608**	**466,127**
Movements without impact on credit loss allowance charge for the period:								
Write-offs								
FX and other movements	-	-	-		(9,658)	(1,070)	(284)	**(11,012)**
Modification of contractual cash flows								
At 31 December 2019	**(6,958)**	**5**	**(9,460)**	**(16,414)**	**2,614,141**	**(33,674)**	**4,324**	**2,584,791**

9 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	**Total**
Standard lending								
At 1 January 2018	(5,695)	(45)	(4,944)	**(10,684)**	2,164,689	26,788	19,794	**2,211,271**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	42	-	(21,929)	**(21,887)**	(23,647)	-	23,647	**-**
New originated or purchased	(2,974)	-	-	**(2,974)**	1,878,977	-	-	**1,878,977**
Derecognised during the period	4,307	45	4,944	**9,296**	(1,905,032)	(929)	(21,540)	**(1,927,501)**
Changes in accrued interest	-	-	-	**-**	(491)	-	(60)	**(551)**
Total movements with impact on credit loss allowance charge for the period	**1,376**	**45**	**(16,985)**	**(15,564)**	**(50,194)**	**(929)**	**2,048**	**(49,075)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	21,929	**21,929**	-	-	(21,929)	**(21,929)**
FX and other movements	-	-	-	**-**	(4,522)	(64)	87	**(4,500)**
Modification of contractual cash flows	-	-	-	**-**	(6,091)	-	-	**(6,091)**
At 31 December 2018	**(4,320)**	**-**	**-**	**(4,320)**	**2,103,882**	**25,794**	**-**	**2,129,676**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 29. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

9 Loans and Advances to Customers (Continued)

The following table contains analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Standard lending					
- Excellent	1,381,222	-	-	-	**1,381,222**
- Good	867,994	99,216	-	-	**967,210**
- Satisfactory	123,238	-	-	-	**123,238**
- Special monitoring	15,237	-	-	-	**15,237**
- Default	-	-	97,885	-	**97,885**
Gross carrying amount	**2,387,691**	**99,216**	**97,885**	**-**	**2,584,791**
Credit loss allowance	(6,954)	-	(9,460)	-	**(16,414)**
Carrying amount	**2,380,737**	**99,216**	**88,425**	**-**	**2,568,377**

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

In thousands of Serbian Dinars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Standard lending					
- Excellent	1,007,907	-	-	-	1,007,907
- Good	1,090,569	25,794	-	-	1,116,363
- Special monitoring	5,407	-	-	-	5,407
Gross carrying amount	**2,103,882**	**25,794**	**-**	**-**	**2,129,676**
Credit loss allowance	(4,320)	-	-	-	(4,320)
Carrying amount	**2,099,562**	**25,794**	**-**	**-**	**2,125,356**

For description of the credit risk grading used in the tables above refer to Note 29.

9 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of Serbian Dinars	2019		2018	
	Amount	**%**	**Amount**	**%**
- Agriculture, forestry and fishing	152,476	5.94%	117,687	5.54%
- Mining, manufacturing, water supply	533,049	20.75%	173,374	8.16%
- Electricity supply	15,792	0.61%	23,646	1.11%
- Construction	238,378	9.28%	390,233	18.36%
- Wholesale and retail trade	1,374,800	53.53%	1,302,036	61.26%
- Transportation and storage	203,815	7.94%	113,590	5.34%
- Real estate	50,065	1.95%	4,787	0.23%
- Other	2	0.00%	3	0.00%
Total loans and advances to customers carried at AC	**2,568,377**	**100.00%**	**2,125,356**	**100.00%**

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

In thousands of Serbian Dinars	**Standard lending**	**Total**
Loans collateralised by:		
- residential real estate	105,142	105,142
- other real estate	329,534	329,534
- cash deposits	69,437	69,437
- other assets	143,145	143,145
Total	**647,258**	**647,258**
Unsecured exposures	1,921,119	**1,921,119**
Total carrying value loans and advances to customers at AC	**2,568,377**	**2,568,377**

Information about collateral for loans to corporate customers is as follows at 31 December 2018:

In thousands of Serbian Dinars	**Standard lending**	**Total**
Loans collateralised by:		
- residential real estate	64,985	**64,985**
- other real estate	241,432	**241,432**
- cash deposits	52,156	**52,156**
- other assets	277,165	**277,165**
Total	**635,738**	**635,738**
Unsecured exposures	1,489,618	**1,489,618**
Total carrying value loans and advances to customers at AC	**2,125,356**	**2,125,356**

9 Loans and Advances to Customers (Continued)

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

In thousands of Serbian Dinars	**31 December 2019**	**31 December 2018**
Loans to corporate customers		
Standard lending	99,215	25,794
Total significantly over-collateralised loans and advances to customers carried at AC	**99,215**	**25,794**

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2019 is presented for credit impaired loans as follows:

	Over-collateralised assets		**Under-collateralised Assets**	
In thousands of Serbian Dinars	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to corporate customers				
Standard lending	-	-	88,425	79,493
Total			**88,425**	**79,493**

At 31 December 2018 the Bank had no credit impaired exposures.

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to three years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are after a valuation haircut of 40-80% applied to consider liquidity and quality of the pledged assets.

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2019 and 31 December 2018:

In thousands of Serbian Dinars	**31 December 2019**	**31 December 2018**
Loans to corporate customers		
Standard lending	22,142	21,929
Total	**22,142**	**21,929**

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

9 Loans and Advances to Customers (Continued)

In 2019 there were no loans with contractual modifications resulting in gains or losses recognised in profit or loss on modifications. Information about modifications of loans that have not resulted in derecognition as at 31 December 2018 is as follows:

In thousands of Serbian Dinars	**Loans and advances to customers**
**Year ended 31 December 2018**	
Amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	591,653
Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(6,212)
At 31 December 2018	
Gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year	584,826

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 29.

10 Other Assets

In thousands of Serbian Dinars	**2019**	**2018**
Other financial assets at AC	525	4,163
Less credit loss allowance	(81)	(2,458)
Total carrying amount of other financial assets	**444**	**1,705**
Other non-financial assets	9,530	9,560
Less allowance	(770)	(636)
Total carrying amount of other non-financial assets	**8,760**	**8,924**
Total other assets	**9,204**	**10,629**

10 Other Assets (Continued)

The table below contains an analysis of the credit risk exposure of other financial assets at AC. The carrying amount of other financial assets at AC at 31 December 2019 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Serbian Dinars	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Other financial assets					
- Excellent	190	-	-	-	**190**
- Good	22	97	6	-	**125**
- Satisfactory	58	-	31	-	**89**
- Special monitoring	4	-	-	-	**4**
- Default	-	-	117	-	**117**
Gross carrying amount	**274**	**97**	**154**	**-**	**525**
Credit loss allowance	-	-	(81)	-	**(81)**
Carrying amount	**274**	**97**	**73**	**-**	**444**

Other financial assets relate mainly to fee receivables from banking transactions, as well as from advisory services, thus are not secured by any kind of collateral.

	31-Dec-19			31-Dec-18		
In thousands of Serbian Dinars	**Gross carrying amount**	**Allowance / Accumulated depreciation**	**Carrying amount**	**Gross carrying amount**	**Allowance / Accumulated depreciation**	**Carrying amount**
Non-financial assets						
Prepayments for goods and services	8,259	-	**8,259**	7,952	-	**7,952**
Inventories	770	(770)	**-**	636	(636)	**-**
Other assets	501	-	**501**	972	-	**972**
Total other non-financial assets	**9,530**	**(770)**	**8,760**	**9,560**	**(636)**	**8,924**

10 Other Assets (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of other financial assets were as follows.

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	**Total**
Other financial assets								
At 31 December 2018	**-**	**-**	**(2,457)**	**(2,458)**	**53**	**15**	**4,094**	**4,163**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-	**-**
New originated or purchased	(2)	-	(1,995)	**(1,997)**	2,583	194	7,877	10,654
Derecognised during the period	2	-	3,407	**3,409**	(2,362)	(112)	(11,670)	**(14,144)**
(Increase) / decrease due to change of risk	-	-	816	**816**	-	-	-	**-**
Total movements with impact on credit loss allowance charge for the period	**-**	**-**	**2,229**	**2,229**	**221**	**82**	**(3,793)**	**(3,490)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	148	**148**	-	-	(148)	**(148)**
At 31 December 2019	**-**	**-**	**(81)**	**(81)**	**274**	**97**	**154**	**525**

10 Other Assets (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
In thousands of Serbian Dinars	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit im-paired)**	**Total**	**(12-months ECL)**	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	**Total**
Other financial assets								
At 1 January 2018	(577)	-	(137)	**(714)**	2,662	-	139	**2,801**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	(3)	3	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	32	-	(32)	**-**	(71)	-	71	**-**
New originated or purchased	(1)	-	(110)	**(111)**	15,487	107	4,255	**19,850**
Derecognised during the period	75	-	122	**197**	(18,022)	(96)	(165)	**(18,283)**
(Increase) / decrease due to change of risk	470	-	(2,506)	**(2,036)**	-	-	-	**-**
Total movements with impact on credit loss allowance charge for the period	**577**	**-**	**(2,526)**	**(1,950)**	**(2,609)**	**15**	**4,161**	**1,567**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	206	**206**	-	-	(206)	**(206)**
At 31 December 2018	**-**	**-**	**(2,457)**	**(2,458)**	**53**	**15**	**4,094**	**4,163**

11 Premises, Equipment and Right-of-use assets

In thousands of Serbian Dinars	Premises	Office and computer equipment	Construction in progress	Right-of-use assets	Total premises, equipment and right-of-use assets
Cost at 1 January 2018	**70,580**	**131,202**	**3,049**	**-**	**204,831**
Accumulated depreciation	(32,603)	(57,838)	-	-	**(90,441)**
Carrying amount at 1 January 2018	**37,977**	**73,364**	**3,049**	**-**	**114,390**
Additions	-	-	533	-	**533**
Transfers	2,883	202	(3,084)	-	**1**
Disposals	-	(174)	-	-	**(174)**
Depreciation charge	(15,762)	(26,919)	-	-	**(42,681)**
Carrying amount at 31 December 2018	**25,098**	**46,473**	**498**	**-**	**72,069**
Cost at 31 December 2018	**73,463**	**131,230**	**498**	**-**	**205,191**
Accumulated depreciation	(48,365)	(84,757)	-	-	**(133,122)**
Carrying amount at 31 December 2018	**25,098**	**46,473**	**498**	**-**	**72,069**
Additions	-	-	1,355	121,431	**122,786**
Transfers	234	1,527	(1,761)	-	**-**
Disposals	-	(309)	(92)	-	**(401)**
Other	-	810	-	-	**810**
Depreciation charge	(15,964)	(24,982)	-	(24,286)	**(65,232)**
Carrying amount at 31 December 2019	**9,368**	**23,518**	**-**	**97,145**	**130,031**
Cost at 31 December 2019	**73,697**	**133,257**	**-**	**121,431**	**328,385**
Accumulated depreciation	**(64,329)**	**(109,739)**	**-**	**(24,286)**	**(198,354)**
Carrying amount at 31 December 2019	**9,368**	**23,518**	**,**	**97,145**	**130,031**

The Bank leases business premises with rental contract made for fixed period of lease. Until 31 December 2018 leases of premises were classified as operating lease. From 1 January 2019, lease of premises is recognised as a right-of-use asset and a corresponding lease liability. Interest expense on lease liabilities was RSD 4,254 thousand (Note 20).

Expenses relating to short-term leases of RSD 8,119 thousand in 2019 are included in other expenses (Note 26).

12 Intangible assets

In thousands of Serbian Dinars		Software	Licenses	Construction in progress	Total
Cost at 1 January 2018		**273,709**	**22,960**	**3,080**	**299,749**
Accumulated depreciation		(79,134)	(8,936)	-	**(88,070)**
Carrying amount at 1 January 2018		**194,575**	**14,024**	**3,080**	**211,679**
Additions		-	-	19,899	**19,899**
Transfers		28,292	2,307	(22,980)	**7,619**
Disposals		-	-	-	**-**
Depreciation charge		(41,244)	(5,421)	-	**(46,665)**
Carrying amount at 31 December 2018		**181,623**	**10,909**	**-**	**192,532**
Cost at 31 December 2018		**302,001**	**25,267**	**-**	**327,267**
Accumulated depreciation		**(120,378)**	**(14,358)**	**-**	**(134,736)**
Carrying amount at 31 December 2018		**181,623**	**10,909**	**-**	**192,532**
Additions		-	-	3,192	3,192
Transfers		3,192	-	(3,192)	**-**
Other		-	(810)	-	**(810)**
Depreciation charge	37	(43,919)	(5,099)	-	**(49,018)**
Carrying amount at 31 December 2019		**140,896**	**5,000**	**-**	**145,896**
Cost at 31 December 2019		**305,193**	**24,457**	**-**	**329,650**
Accumulated depreciation		**(164,297)**	**(19,457)**	**-**	**(183,754)**
Carrying amount at 31 December 2019		**140,896**	**5,000**	**-**	**145,896**

13 Deposits and other liabilities to banks, other financial institutions and central bank

In thousands of Serbian Dinars	2019	2018
Current accounts of other financial institutions	13,769	551
Term deposits of other financial institutions	689,790	275,783
Fees payable to central bank	85	71
Total deposits and other liabilities to banks, other financial institutions and central bank	**703,644**	**276,405**

14 Deposits and other liabilities to customers

In thousands of Serbian Dinars	2019	2018
State and public organisations	**3,535**	**730,253**
- Current accounts	3,390	31,114
- Term deposits	145	699,139
Other legal entities	**1,909,348**	**1,266,964**
- Current accounts	1,013,445	632,287
- Term deposits	895,903	634,677
Individuals	**531,602**	**302,435**
- Current accounts	28,848	78,389
- Term deposits	502,754	224,046
Total deposits and other liabilities to customers	**2,444,485**	**2,299,652**

Short-term deposit are term deposits denominated in RSD and foreign currency with maturity up to 12 mouths. These deposits have interest rates ranging from 0.50% - 2.10% per annum (on foreign currency deposits) or from 0.00% to 4.10% (on RSD deposits).

Long-term foreign currency deposits from individuals were collected at the interest rate from 1.20% to 1.60% annually, while long-term local currency deposits from legal entities were gathered at rates ranging up to 4.10%.

In thousands of Serbian Dinars	2019	2018
Local currency	**514,868**	**461,394**
- Current accounts	398,744	151,073
- Short-term	41,477	256,837
- Long-term	74,647	53,485
Foreign currency	**1,929,617**	**1,838,259**
- Current accounts	646,939	590,718
- Short-term	471.154	774,600
- Long-term	811,524	472,941
Total customer accounts	**2,444,485**	**2,299,653**

14 Deposits and other liabilities to customers (Continued)

Economic sector concentrations within customer accounts are as follows:

In thousands of Serbian Dinars	2019		2018	
	Amount	**%**	**Amount**	**%**
- Agriculture, forestry and fishing	162,687	6.66	347	0.02
- Mining, manufacturing, water supply	40,134	1.64	30,966	1.35
- Electricity supply	312	0.01	694	0.03
- Construction	636,101	26.03	401,350	17.45
- Wholesale and retail trade	388,513	15.89	288,518	12.55
- Transportation and storage	114,256	4.67	526,800	22.91
- Real estate	229,789	9.40	476,959	20.74
- Retail	577,398	23.62	302,435	13.15
- Foreign legal entities (except banks)	271,698	11.11	237,608	10.33
- Other	23,597	0.97	33,976	1.48
Total customer accounts	**2,444,485**	**100.00**	**2,299,653**	**100.00**

15 Provisions for Liabilities and Charges

Provision for liabilities and charges comprise the following

In thousands of Serbian Dinars	**2019**	**2018**
Provisions for retirement benefits	3,016	2,537
Provisions for accrued employees' annual leave	4,836	5,372
Provisions for losses on off-balance sheet assets	1,172	1,282
Provisions for litigations	15,986	-
Total provisions for liabilities and charges	**25,010**	**9,191**

The Bank made provisions for potential losses from legal litigations. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Movements in provisions for liabilities and charges are as follows:

In thousands of Serbian Dinars	Off-balance sheet exposures	Retirement benefits	Employees' annual leave	Litigations	**Total Provisions for Liabilities and Charges**
1 January 2018	**2,779**	**2,378**	**806**	-	**5,963**
New production	21	-	-	-	21
Derecognition	(1,048)	-	-	-	(1,048)
Increase/(decrease) - change in risk	(470)	-	-		(470)
Other movements		159	4.566		4,725
31 December 2018	**1,282**	**2,537**	**5,372**	-	**9,191**
New production	2,340	-	-	-	2,340
Derecognition	(700)	-	-	-	(700)
Increase/(decrease) - change in risk	(1,750)	-	-	-	(1,750)
Other movements	-	479	(536)	15,986	15,929
31 December 2019	**1,172**	**3,016**	**4,836**	**15,986**	**25,010**

16 Other Liabilities

Other liabilities comprise the following:

In thousands of Serbian Dinars	2019	2018
Suppliers	570	3,252
Advances received	11,290	4,706
Liabiilities for taxes and contributions	159	110
Accrued operating expenses	7,243	10,037
Accrued CAPEX	1,885	7,619
Deferred fee income	3,946	2,344
Lease liabilities	98,533	-
Other liabilities	2,145	292
Total	**125,771**	**28,362**

17 Subordinated Debt

Subordinated debt of RSD 1,176,083 thousand (2018: RSD 1,182,194 thousand) carries a variable interest rate of 6-months euribor +0.5% p.a. and matures on 30 October 2025 and 2 November 2025. The debt ranks after all other creditors in the case of liquidation.

Name of creditor	Contracted amount	Curr.	31.12.2019. in EUR	Interest rate is annual	Maturity	Balance at 31.12.2019 in thous. of dinars
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0,5%	30.10.2025.	587.964
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0,5%	02.11.2025.	587.964
Accrued interest						155
Total						**1,176,083**

Name of creditor	Contracted amount	Curr.	31.12.2018. in EUR	Interest rate is annual	Maturity	Balance at 31.12.2018 in thous. of dinars
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor + 0,5%	30.10.2025.	590,973
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor + 0,5%	02.11.2025.	590,973
Accrued interest						248
Total						**1,182,194**

Movements in the carrying amount relate solely to FX differences and changes in accruals. There were no changes in principal.

In thousands of Serbian Dinars	
1 January 2018	**1,184,958**
Change in accruals	18
FX differences	(2,781)
31 December 2018	**1,182,194**
Change in accruals	(93)
FX differences	(6,018)
31 December 2019	**1,176,083**

18 Share Capital

In thousands of Serbian Dinars except for number of shares	Number of outstanding shares [in thousands]	Ordinary shares	Total
At 1 January 2018	3,631	3,631,200	**3,631,200**
New shares issued	-	-	-
At 31 December 2018	3,631	3,631,200	**3,631,200**
New shares issued	-	-	-
At 31 December 2019	**3,631**	**3,631,200**	**3,631,200**

The total authorised number of ordinary shares is 3,631 thousand (2018: 3,631 thousand shares), with a par value of RSD 1,000 per share (2018: RSD 1,000 per share). All issued ordinary shares are fully paid.

At 31 December 2019, there were no treasury shares of the Bank in the balance sheet (2018: none).

19 Interest Income and Expense

In thousands of Serbian Dinars	2019	2018
Interest income calculated using EIR method		
Interest income from RSD assets		
Loans to customers	98,394	88,181
Loans to banks and other financial institutions	9,789	6,424
Securities at FVOCI	75,684	94,607
Total interest income from RSD assets	**183,867**	**189,212**
Interest income from foreign currency assets		
Loans	13,657	13,957
Deposits in banks	85	258
Total interest income from foreign currency assets	**13,742**	**14,215**
Total interest income calculated using EIR method	**197,609**	**203,427**
Interest expense		
Interest expense from RSD liabilities		
Deposits from customers	28,822	19,836
Total interest expense from RSD assets	**28,822**	**19,836**
Interest expense from foreign currency liabilities		
Subordinated debt	2,886	2,757
Deposits from customers	19,295	22,105
Lease liabilities	4,254	-
Total interest expense from foreign currency assets	**26,435**	**24,862**
Total interest expense	**55,257**	**44,697**
Net interest income	**142,352**	**158,730**

20 Fee and Commission Income and Expense

In thousands of Serbian Dinars	2019	2018
Fee and commission income		
- Domestic payment transactions	9,120	7,620
- International payment transactions	1,896	1,502
- Other	561	1,712
Total fee and commission income from contracts with customers	**11,577**	**10,833**
- Financial guarantees issued	19,974	16,427
Total fee and commission income from activities out of the scope of IFRS 15	**19,974**	**16,427**
Total fee and commission income	**31,551**	**27,260**
Fee and commission expense		
- Domestic payment transactions	1,608	1,438
- International payment transactions	3,018	2,418
- Other	367	867
Total fee and commission expense	**4,993**	**4,723**
Net fee and commission income	**26,558**	**22,537**

21 Other Operating Income

In thousands of Serbian Dinars	2019	2018
Income from services	18,671	12,399
Total other operating income	**18,671**	**12,399**

Income from services referes to advisory services, mainly success fee earned from contracts with customers.

22 Net expenses on impairment of financial assets not measured at FVTPL

In thousands of Serbian Dinars	2019	2018
Modification losses	-	6,212
Net ECL expenses on financial assets at AC	10,083	16,820
Net (income) from reversals of ECL on off-balance sheet items	1,073	(1,497)
Net (income) from reversals of ECL on financial assets at FVOCI	(107)	(805)
Net expense on written-off financial assets	-	206
Net expenses on impairment of financial assets not measured at FVTPL	**11,049**	**20,937**

23 Salaries, salary compensations and other personnel expenses

In thousands of Serbian Dinars	**2019**	**2018**
Net salaries	139,734	196,628
Contributions on salaries	18,789	22,254
The cost of compensation for members of the BoD	5,182	4,263
(Income) / expenses from (cancellation) / additional provisions for annual leave and pension (IAS 19)	(58)	4,725
Other personnel expenses	3,921	3,901
Total salaries, salary compensations and other personnel expenses	**167,568**	**231,771**

24 Depreciation and amortisation expenses

In thousands of Serbian Dinars	**2019**	**2018**
Depreciation of Premises and Equipment	40,975	42,831
Depreciation of right-of-use assets	24,286	-
Amortization of intangible assets	49,220	46,665
Total depreciation and amortisation expenses	**114,481**	**89,496**

25 Other expenses

In thousands of Serbian Dinars	**2019**	**2018**
Facility expenses	16,639	44,103
Information systems expenses	69,994	67,160
Professional services	13,849	20,599
Marketing	3,059	10,101
Deposit insurance agency	11,046	7,304
Insurance expenses	6,277	6,810
Short-term lease expense	8,119	-
Business trips	2,221	8,124
Memberships	1,737	1,653
Administrative taxes	1,027	1,616
Provisions for litigations	15,986	-
Other	9,756	15,409
Total other expenses	**159,710**	**182,879**

26 Income taxes

(a) Components of income tax expense / (benefit)

Income tax credit recorded in profit or loss for the year comprises the following:

In thousands of Serbian Dinars	**2019**	**2018**
Deferred tax credit	(9,077)	(4,313)
Income tax credit for the year	**(9,077)**	**(4,313)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Bank's 2019 income is 15% (2018: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Serbian Dinars	**2019**	**2018**
Loss before tax	**(261,962)**	**(326,783)**
Theoretical tax credit at statutory rate of 15%	(39,294)	(49,017)
Tax effect of items which are deductible for taxation purposes	(767)	(4,989)
Unrecognised DTA from tax loss	40,061	58,320
Other	-	(1)
Income tax credit	**9,077**	**4,313**
Effective tax rate	**-3.47%**	**-1.32%**

(c) Tax loss carry forwards

The Bank has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards as presented below. The tax loss carry forwards expire as follows:

In thousands of Serbian Dinars

Year of the loss	**Amount of the loss**	**Utilized previously unrecognized loss**	**Remaining unrecognized tax loss carry forward**	**Year of expiry of tax loss carry forward**
2015	317,942	-	317,942	2020
2016	485,393	-	485,393	2021
2017	536,116	-	536,116	2022
2018	388,802	-	388,802	2023
2019	267,072		267,072	2024
Total	**1,995,325**	**-**	**1,995,325**	

26 Income taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Serbia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In thousands of Serbian dinars	**1 January 2019**	**Credited to profit or loss**	**31 December 2019**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(9,458)	9,458	-
Provision for retirement benefits	381	(381)	-
Net deferred tax (liability)	**(9,077)**	**9,077**	**-**

As at 31 December 2018, net deferred tax liabilities related to temporary differencies on premises and equipment nad provisions for retirement benefit amounted to RSD 9,077 thousand, with deferred tax credited to profit or loss of RSD 4,314 thousand.

27 Reconciliation of Liabilities Arising from Financing Activities

The Bank did not have any cash flows from liabilities arising from financing activities in 2019 and 2018. The only movement in the subordinated debt was solely from foreign currency translation and changes of accruals, as disclosed in note 18.

28 Financial Risk Management

The risk management function within the Bank is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank’s lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the balance sheet. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring and the associated loss ratios.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by borrower and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Bank established credit committee that is responsible for approving credit limits for individual borrowers. Credit committee reviews and approves limits below EUR 1,000 thousand, as regulated by the respective Board of Director decision. Credit committee meets when required.

The Bank’s Board of Directors reviews and approves limits above EUR 1,000 thousand, based on recommendation of the Bank’s credit committee and its prior approval.

Loan applications originating with the relevant client relationship managers are passed on to the credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the relevant functions in the Bank based on a structured analysis focusing on the customer’s business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Bank’s Executive Committee.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies two approaches – an internal rating system or risk grades estimated by external international rating agencies (Standard & Poor’s - “S&P”, Fitch, Moody’s). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

28 Financial Risk Management (Continued)

Master scale credit risk grade	Corresponding internal ratings	Corresponding PD interval for loans to customers and financial institutions with no external rating	Corresponding PD interval for loans to financial institutions with external rating	Corresponding PD interval for exposure to sovereign institutions
Excellent	A1, A2, B1	0,24% – 0,67%	0,24% – 0,67%	0,00% - 0,51%
Good	B2, V1	0,87% - 2,68%	0,87% - 2,68%	0,51% - 2,62%
Satisfactory	V2	8,57%	3,63% - 8,57%	2,62% - 11,71%
Special monitoring	G	19,52%	19,52%	11,71%
Default	D	100%	100%	100%

Moody's ratings ranging from Aaa to A3 are not mapped to internal ratings as it is considered that in the Republic of Serbia there are no financial assets of comparative quality to the respective ratings.

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The internal rating system is designed internally and ratings are estimated by management. Bank has used expert judgment-based model as credit risk estimation technique. In such model, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.

The Bank applies internal rating model for measuring credit risk for the following financial assets: loans to companies, exposures to sovereign and exposures to banks and other financial institutions.

The rating model is regularly reviewed by Risk Department, backtested on actual default data and updated, if necessary. External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: interbank placements, loans to sovereigns and investments in debt securities (government).

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

28 Financial Risk Management (Continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committen amounts to an on-balance sheet exposure within a defined period. The Bank's management estimates that 12-month and lifetime CCFs are materially the same. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates are not yet modelled in the manner to specifically consider *forward looking information.* The reason lies in the fact that due to the Bank's size, length of operation and quality of loan portfolio (low number of defaults) it has not been possible to conclude on the impact of key macroeconomic variables on credit risk. In the future, the Bank has foreseen taking into account the following macroeconomic variables as minimum: GDP growth rate, unemployment rate, consumer price index and reference interest rates for analysing and modelling impact of these on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- Upon assessing the financial position, i.e. the creditworthiness of the borrower, the Bank determines that the borrower is unable to settle its liabilities in full without the activation of collateral, regardless of whether or not the borrower meets its liabilities in a timely manner;
- Default on liabilities has occurred, in accordance with the NBS decision governing the capital adequacy of banks;
- Bankruptcy proceedings have been initiated against the client;
- The Bank has initiated judicial proceeding against the client;
- The borrower (entrepreneur) has terminated his/her registered activity with the Serbian Business Registers Agency, regardless whether it defaults on its contractual payments to the Bank.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months This period of six months has been determined based on the expert judgment and industry best practice.

28 Financial Risk Management (Continued)

The assessment whether or not there has been a significant increase in credit risk (“SICR”) since initial recognition is performed on an individual basis and on a portfolio basis. For loans to companies, SICR is assessed on an individual basis by monitoring the triggers stated below. For other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank’s Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank decided not to use the low credit risk assessment exemption for investment grade financial assets. Hence, even assets of an investment grade are assessed whether there has been a SICR.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

- 30 days past due;
- award of risk grade “Special monitoring” and inclusion of loan into a watch list according to the internal credit risk monitoring process;
- restructuring of the performing loan due to increased credit risk;
- decrease of rating from categories A, B or V1 to category V2, according to the Bank’s procedure on Classfication of balance sheet assets and off-balance sheet items.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset’s effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed, all in accordance with Bank’s procedure on Management of loans with increased credit risk and bad loans management.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings. The Bank performs an assessment on an individual basis for the following types of exposure: credit-impaired financial assets which are above RSD 3,000,000 for legal entities and RSD 1,000,000 for private individuals, agriculture producers and entrepreneurs. The Bank performs an assessment on a portfolio basis for all the financial assets that are not credit-impaired and if credit-impaired then below the threshold specified previously.

The Bank performs assessments based on external ratings for interbank loans, debt securities issued by the banks and loans issued to sovereigns, if external ratings are available.

28 Financial Risk Management (Continued)

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Analysis Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristic is credit risk rating. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank calculates lifetime PDs using the extrapolation of 12-month PDs based on migration matrixes.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit lines of corporate customers and for financial guarantees is defined based on expert judgment and regulatory guidelines. CCF for overdrafts is defined as 0% since the Bank may withdraw limits to the customers at any time.

28 Financial Risk Management (Continued)

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government and institutions exposures, if available.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs should incorporate supportable forward-looking information. The Bank did not incorporate forward-looking information in the ECL models. As the Bank has relatively short operating history, Bank's loan portfolio contains a relatively small number of clients/parties and number of clients in status default until end 2019 has been insignificant, the Bank analysis of impact of economic variables on the credit risk variables (PD, LGD and EAD) has not yielded the meaningful conclusion – i.e. the relationship/regression was not established between the variables.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rates, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

With the aim to protect against the currency risk, the Bank monitors the foreign exchange rates' trends in the financial market on the daily basis and implements the policy of low exposure to the currency risk. Treasury department monitors the trends in the foreign exchange market on the daily basis and manages the foreign exchange position of the Bank in its entirety and per individual significant currencies.

Asset and Liability Committee proposes measures to the Executive Committee of the Bank for adjustments of FX assets and liabilities to provide for favourable foreign exchange position on each currency segment. An independent risk management department performs independent analysis of the foreign exchange management process through monitoring of the compliance with the established system of limits.

Currency risk management is supplemented with the monitoring of:
- Impact of increase/decrease of FX items of assets/liabilities to the open position and foreign exchange risk indicator, and
- Sensitivity of income statement of the Bank to different scenarios of variations in foreign exchange rates. Sensitivity of income statement is the effect of assumptions regarding the changes in foreign exchange rates to net income from fluctuations in foreign exchange rates.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2019				**At 31 December 2018**			
In thousands of Serbian Dinars	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
EUR	3,197,689	3,203,464	-	(5,775)	3,061,556	3,018,729	-	**42,827**
USD	1,876	2,797	-	(921)	1,850	2,756	-	**(906)**
Total	**3,199,565**	**3,206,261**	**-**	**(6,696)**	**3,063,406**	**3,021,485**	**-**	**41,921**

28 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

FX risk (reasonable) stress test	At 31 December 2019		At 31 December 2018	
In thousands of Serbian Dinars	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
The effect of EUR strengtening by 2% on net income	(116)		857	
The effect of EUR weakening by 2% on net income	134		(838)	

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows, Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise, Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken,

The key tool used to measure and manage interest rate risk is the interest rate risk report with a standard analysis of the interest rate gap, the movement of indicators of economic value impact and the movement of indicators of net interest income impact,

The interest rate risk report is prepared at quarterly level, with a reporting date on the last day of the month, The Risk Management Department is responsible for presenting reports, analyzes and recommendations (if necessary) to the ALCO Committee for taking certain measures in order to reduce the interest rate risk, The Risk Management Department is responsible to propose the adoption of key risk indicators and their limits for managing the interest rate risk to the ALCO and the Executive Committee of the Bank,

The Bank's compliance with the limit values ensures adequate management of interest rate risk, maintaining the Bank in the risk appetite zone, as well as compliance with regulatory limits, The Bank Limit system consists of two levels, the first and second levels of the internal limit values, In a situation where the Risk Management Department determines that the first or second level of the internal limit has been exceeded, it is obliged to carry out an analysis of the causes that led to the overrun, In the shortest possible time, members of the ALCO are informed of the situation, At the quarterly level, the Board of Directors receives information on the Bank's exposure to interest rate risk, which includes information on the compliance of the Bank with the internal limits of the first and second levels,

Bank mitigates or reduces the exposure to interest rate risk either by natural protection or by taking the positions to secure protection, The Corporate Banking Department and Treasury Department are responsible for the implementation of mentioned activities respectively, in accordance with the conclusions of the ALCO Committee,

28 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks, The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Serbian Dinars	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-monetary**	**Total**
31-Dec-19							
Total financial assets	1,417,698	240,903	2,320,040	1,740,351	112,870	290,805	**6,122,667**
Total financial liabilities	1,106,847	439,316	2,366,633	411,178	-	238	**4,324,212**
Net interest sensitivity gap at 31 December 2019	**310,851**	**(198,413)**	**(46,593)**	**1,329,173**	**112,870**	**290,567**	**1,798,455**
31-Dec-18							
Total financial assets	2,166,427	731,268	1,639,483	756,097	-	369,390	**5,662,666**
Total financial liabilities	991,509	553,812	1,944,347	245,510	-	23,075	**3,758,252**
Net interest sensitivity gap at 31 December 2018	**1,174,918**	**177,456**	**(304,864)**	**510,587**	**-**	**346,316**	**1,904,414**

All of the Bank's debt instruments reprice within 5 years (2018: all reprice within 5 years).

At 31 December 2019, if interest rates at that date had been 100 basis points lower (2018: 100 basis points lower) with all other variables held constant, loss for the year would have been RSD 1,565 thousand (2018: RSD 3,833 thousand) higher, mainly as a result of lower interest income on variable interest assets.

Other price risk. The Bank does not have exposure to equity price risk.

The Bank is exposed to prepayment risk through providing fixed and variable rate loans, which give the borrower the right to repay the loans early. The Bank's current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2018: no material impact).

28 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2019 is set out below:

In thousands of Serbian Dinars	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	761,801	-	-	**761,801**
Derivative financial assets	-	-	-	**-**
Securities	1,914,906	-	-	**1,914,906**
Loans and receivables from banks and other financial organisations	310,746	566,835	2	**877,583**
Loans and receivables from clients	2,568,377	-	-	**2,568,377**
Other financial assets	9,197	7	-	**9,204**
Total financial assets	**5,565,027**	**566,842**	**2**	**6,131,871**
Financial liabilities				
Deposits and other liabilities to banks, other financial organisations and central bank	**703,644**	**-**	**-**	**703,644**
Deposits and other financial liabilities to clients	**1,996,614**	**326,174**	**121,697**	**2,444,485**
- current and settlement accounts	1,759,027	279,137	121,697	**2,159,861**
- term deposits	237,587	47,037	-	**284,624**
Subordinated liabilities	**-**	**-**	**1,176,083**	**1,176,083**
Total financial liabilities	**2,700,258**	**326,174**	**1,297,780**	**4,324,212**
Net position in on-balance sheet financial instruments	**2,864,769**	**240,668**	**(1,297,778)**	**1,807,659**

Assets and liabilities have been based on the country in which the counterparty is located.

28 Financial Risk Management (Continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018 is set out below:

In thousands of Serbian Dinars	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	548,470	-	-	**548,470**
Derivative financial assets	-	-	-	**-**
Securities	1,988,454	-	-	**1,988,454**
Loans and receivables from banks and other financial organisations	563,240	437,140	1	**1,000,387**
Loans and receivables from clients	2,125,356	-	-	**2,125,356**
Other financial assets	10,210	17	402	**10,629**
Total financial assets	**5,235,729**	**437,163**	**404**	**5,673,295**
Financial liabilities				
Deposits and other liabilities to banks, other financial organisations and central bank	276,405	-	-	**276,405**
Deposits and other financial liabilities to clients	**1,932,910**	**237,619**	**129,124**	**2,299,653**
- current and settlement accounts	422,328	237,619	81,846	**741,793**
- term deposits	1,510,582	-	47,278	**1,557,860**
Subordinated liabilities	-	-	1,182,194	**1,182,194**
Total financial liabilities	**2,209,315**	**237,619**	**1,311,318**	**3,758,252**
Net position in on-balance sheet financial instruments	**3,026,414**	**199,543**	**(1,310,915)**	**1,915,043**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considersation of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements, The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Serbia.

28 Financial Risk Management (Continued)

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department and Risk Management Department.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the balance sheet because the amount in the statement of financial position is based on discounted cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2019 is as follows:

In thousands of Serbian Dinars	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and assets held with the central bank	761,801	-	-	-	-	**761,801**
Securities	-	-	423,210	1,378,826	112,870	**1,914,906**
Loans and receivables from banks and other financial organisations	567,143	204,745	100,000	6,000-	-	**877,888**
Loans and receivables from clients	16,015	408,955	948,874	1,210,947	-	**2,584,791**
Total	**1,344,959**	**613,700**	**1,472,084**	**2,595,773**	**112,870**	**6,139,386**
Liabilities						
Deposits and other liabilities to banks, other financial organisations and central bank	61,861	200,000	220,000	221,783	-	**703,644**
Deposits and other financial liabilities to clients	**1,045,828**	**358,573**	**969,611**	**70,474**	-	**2,444,485**
- current and settlement accounts	1,045,828	-	-	-	-	1,045,828
- term deposits	-	358,573	969,611	70,474	-	**1,398,657**
Subordinated liabilities	155	-	-	-	1,175,928	**1,176,083**
Gross loan commitments	60,560	-	-	-	-	**60,560**
Payment guarantees	331,613	-	-	-	-	**331,613**
Other financial liabilities	-	-	-	-	143,638	**143,638**
Total potential future payments for financial obligations	**1,500,017**	**558,573**	**1,189,611**	**292,257**	**1,319,566**	**4,860,023**
Liquidity gap arising from financial instruments	**(155,058)**	**55,128**	**282,473**	**2,303,517**	**(1,206,696)**	**1,279,363**

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2018 is as follows:

In thousands of Serbian Dinars	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and assets held with the central bank	548,470	-	-	-	-	**548,470**
Securities	-	509,528	767,550	711,376	-	**1,988,454**
Loans and receivables from banks and other financial organisations	885,393	-	115,119	-	-	**1,000,512**
Loans and receivables from clients	116,376	253,009	949,849	810,442	-	**2,129,676**
Total	**1,550,239**	**762,537**	**1,832,518**	**1,521,818**	**-**	**5,667,112**
Liabilities						
Deposits and other liabilities to banks, other financial organisations and central bank	19,405	-	157,000	100,000	-	**276,405**
Deposits and other financial liabilities to clients	**999,119**	**559,630**	**625,207**	**145,629**	**-**	**2,329,584**
- current and settlement accounts	706,190	-	-	-	-	**706,190**
- term deposits	292,929	559,630	625,207	145,629	-	**1,623,394**
Subordinated liabilities	-	-	2,924	14,636	1,184,874	**1,202,434**
Gross loan commitments	78,919	-	-	-	-	**78,919**
Payment guarantees	502,112	-	-	-	-	**502,112**
Other financial liabilities	32,021	7,275	31,114	126,906	-	**197,316**
Total potential future payments for financial obligations	**1,631,575**	**566,905**	**816,245**	**387,171**	**1,184,874**	**4,586,770**
Liquidity gap arising from financial instruments	**(81,337)**	**195,632**	**1,016,273**	**1,134,648**	**(1,184,874)**	**1,080,342**

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement, The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

28 Financial Risk Management (Continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity, Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of RSD	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2019						
Financial assets	1,344,427	601,392	1,443,733	2,488,030	112,870	**5,990,452**
Financial liabilities	1,104,907	555,224	1,180,178	291,196	1,305,668	**4,437,173**
Net liquidity gap based on expected maturities	**239,520**	**46,168**	**263,555**	**2,196,834**	**(1,192,798)**	**1,553,279**
At 31 December 2018						
Financial assets	1,573,123	736,027	1,856,985	1,510,489	-	**5,676,624**
Financial liabilities	1,067,254	534,672	828,047	725,038	1,195,348	**4,350,359**
Net liquidity gap based on expected maturities	**505,870**	**201,354**	**1,028,937**	**785,451**	**(1,195,348)**	**1,326,264**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

29 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Serbia, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the National Bank of Serbia is monitored monthly, with reports outlining their calculation reviewed by the Executive Committee. Other objectives of capital management are evaluated quarterly.

Under the current capital requirements set by the National Bank of Serbia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The amount of capital that the Bank managed was RSD 3,631,200 thousand as of 31 December 2019 (2018: RSD 3,631,200 thousand), regulatory capital amounts to RSD 2,892,040 thousand (2018: RSD 3,033,941 thousand) and the Bank has complied with all externally imposed capital requirements throughout 2019 and 2018.

The composition of the Bank's capital calculated in accordance with the Basel Accord is as follows:

In thousands of Serbian Dinars	**2019**	**2018**
Tier 1 capital		
Share capital	3,631,200	3,631,200
(-) Loss	(1,769,192)	(1,516,307)
Revaluation reserves and other unrealised gains/losses	-	(180)
(-) Other intangible investment reduced by associated deferred tax liabilities	(145,896)	(192,532)
(-) Amount of required reserves for estimated losses on the balance sheet assets and off-balance sheet items of the bank that is deducted from the share capital of the bank	-	(70,186)
Total tier 1 capital	**1,716,112**	**1,851,995**
Tier 2 capital		
Revaluation reserves	-	-
Subordinated debt	1,175,928	1,181,946
Total tier 2 capital	**1,175,928**	**1,181,946**
Total capital	**2,892,040**	**3,033,941**
Capital adequacy ratio	**80.49%**	**91.70%**

30 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. At 31 December 2019, the Bank was engaged in litigation proceedings for which provision of RSD 15,986 thousand has been made as professional advice has indicated that it is likely that a loss will eventuate. Refer to Note 16.

Tax contingencies. The Management of the Bank is of the opinion that there is no risk of any tax implications on the financial position of the Bank and therefore has made no provisions related to this matter in these financial statements.

The Management has implemented internal controls to be in compliance with this transfer pricing legislation and has no reason to estimate any potential tax expenses related to this area.

Capital expenditure commitments. At 31 December 2019, the Bank has contractual capital expenditure commitments in respect of software and other intangible assets of RSD 1,957 thousand (2018: RSD 7,619 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

30 Contingencies and Commitments (Continued)

Future cash outlfows related to leases at 31 December 2019. Where the Bank is a lessee, the future cash outflows, to which the Bank is potentially exposed and that are not reflected in the lease liabilities at 31 December 2019 relate mainly to short-term leases with monthly payments and remaining lease term between 3 and 9 months. Rent expense recorded for such leases in 2019 is RSD 8,119 thousand.

Operating lease commitments at 31 December 2018. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases at 31 December 2018 are as follows:

In thousands of Serbian Dinars	**2018**
Not later than 1 year	43,155
Later than 1 year and not later than 5 years	146,979
Later than 5 years	-
Total operating lease commitments	**190,134**

Compliance with covenants. The Bank is not subject to any covenants relating to its borrowings.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Serbian Dinars	**2019**	**2018**
Total irrevocable loan commitments	**60,560**	**78,919**
Financial guarantees issued	331,613	502,112
Less: Provision for financial guarantees	(358)	(1,255)
Less: Provision for loan commitments	(36)	(27)
Less: Commitment collateralised by cash deposits	(10,000)	(14,223)
Total credit related commitments, net of provision and cash covered exposures	**381,779**	**565,526**

30 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2019 is as follows:

In thousands of Serbian Dinars	**Stage 1** (12-months ECL)	**Stage 2** (lifetime ECL for SICR)	**Stage 3** (lifetime ECL for credit im-paired)	**Total**
Issued financial guarantees				
- Excellent	196,057	-	-	196,057
- Good	135,556	-	-	135,556
Unrecognised gross amount	331,613	-	-	331,613
Provision for financial guarantees	(358)	-	-	(358)
Loan commitments				
- Excellent	54,560	-	-	54,560
- Good	6,000	-	-	6,000
Unrecognised gross amount	60,560	-	-	60,560
Provision for loan commitments	(36)	-	-	(36)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

31 Offsetting Financial Assets and Financial Liabilities

The Bank did not set off financial assets and financial liabilities in the statement of financial position as at both 31 December 2019 and 31 December 2018.

32 Transfers of Financial Assets

The Bank did not perform transfers of financial assets in transactions that did or did not qualify for derecognition in the current nor prior periods.

33 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

	31-Dec-19					31-Dec-18				
In thousands of RSD	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets										
Cash and balances with the central bank	-	761,801	-	**761,801**	**761,801**	-	548,470	-	**548,470**	**548,470**
Loans and advances to banks and other financial institutions	-	-	877,583	**877,583**	**877,583**	-	-	1,000,386	**1,000,386**	**1,000,386**
Loans and advances to customers	-	-	2,435,858	**2,435,858**	**2,568,377**	-	-	2,058,591	**2,058,591**	**2,125,356**
Financial assets at FVOCI	-	1,914,906	-	**1,914,906**	**1,914,906**	-	1,988,454	-	**1,988,454**	**1,988,454**
Liabilities										
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	703,644	**703,644**	**703,644**	-	-	276,405	**276,405**	**276,405**
Deposits and other liabilities to customers	-	1,045,828	1,384,815	**2,430,643**	**2,444,485**	-	725,611	1,555,326	**2,280,937**	**2,299,653**
Subordinated liabilities	-	-	1,162,182	**1,162,182**	**1,176,083**	-	-	1,157,613	**1,157,613**	**1,182,194**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Note 3 for valuation method applied by the Bank in determining fair value of financial assets at FVOCI.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (d) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

34 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

In thousands of Serbian Dinars	**Debt instruments at FVOCI**	**AC**	**Total**
Assets			
Cash and assets held with the central bank	-	761,801	**761,801**
Derivative financial assets	-		**-**
Securities	1,914,906	-	**1,914,906**
Loans and receivables from banks and other financial organisations	-	877,583	**877,583**
Loans and receivables from clients	-	2,568,377	**2,568,377**
Other financial assets	-	444	**444**
Total financial assets	**1,914,906**	**4,208,205**	**6,123,111**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In thousands of Serbian Dinars	**Debt instruments at FVOCI**	**AC**	**Total**
Assets			
Cash and assets held with the central bank	-	548,470	**548,470**
Derivative financial assets	-		**-**
Securities	1,988,454	-	**1,988,454**
Loans and receivables from banks and other financial organisations	-	1,000,386	**1,000,386**
Loans and receivables from clients	-	2,125,356	**2,125,356**
Other financial assets	-	1,705	**1,705**
Total financial assets	**1,988,454**	**3,675,917**	**5,664,371**

As of 31 December 2019 and 31 December 2018, all of the Bank's financial liabilities except for derivatives were carried at AC.

35 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. For the Bank, in particular, related parties are considered to be parent company and the entities that constitute for the Bank and parent company: (i) a subsidiary, (ii) an associate, (iii) a joint venture, and (iv) a person or his close family members, if that person is a member of the key management personnel. The Bank considers as key management personnel all the members of the Bank's Board of Directors and of the Bank's Executive Committee.

At 31 December 2019 and 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of RSD

Balance sheet as at 31 December	**2019**	**2018**
Subordinated debt	1,176,083	1,182,194

The income statement items with related parties were as follows:

In thousands of RSD

Income statement for the year	**2019**	**2018**
Interest expense (subordinated debt)	2,886	2,757

In thousands of Serbian Dinars	**2019**	**2018**
Gross salaries	**44,766**	**72,727**
Executive board	35,940	65,988
Board of directors	8,826	6,739
Net salaries	**35,333**	**60,893**
Board of directors	30,152	56,634
Board of directors	5,181	4,259

36 Events after the End of the Reporting Period

Late in 2019 the news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020, the virus spread globally and its negative impact gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the date of issuing these financial statements, there has been no discernible impact on the Bank's operations, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

There were no significant events after the end of the reporting period that would require corrections or disclosures to the financial statements of the Bank for 2019.

37 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
ALCO	Asset and Liability Committee
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
HTM	Held To Maturity
IFRS	International Financial Reporting Standard
L&R	Loans and Receivables
LGD	Loss Given Default
LTV	Loan to Value
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest

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