Raiffeisen BANK

Annual Report 2019

Survey of key data

Raiffeisen banka a.d.			
Monetary values are in thousands RSD	2019	Change	2018
Income Statement			
Net interest income after provisioning	9,782,060	3.54%	9,447,989
Net commission income	4,344,535	5.82%	4,105,419
Net trading income	263,368	413.47%	51,292
General administrative expenses	(9,686,230)	6.86%	(9,064,405)
Profit before tax	6,992,894	(8.53)%	7,645,303
Profit after tax	6,113,883	(7.76)%	6,628,209
Balance Sheet			
Loans and advances to banks	13,550,612	17.24%	11,558,104
Loans and advances to customers	171,584,719	14.09%	150,387,617
Amounts owed to other banks	4,287,532	41.12%	3,038,158
Amounts owed to customers	251,813,778	10.50%	227,889,691
Equity (incl. minorities and profit)	57,891,193	(0.03)%	57,908,928
Balance-sheet total	318,903,137	9.24%	291,924,334
Regulatory information			
Total own funds	50,980,553	1.08%	50,437,418
Own funds requirement	17,448,427	(0.54)%	17,542,514
Core capital ratio	23.37%	1.61%	23.00%
Own funds ratio	23.37%	1.61%	23.00%
Performance			
Return on equity (ROE) before tax	12.90%	(9.03)%	14.18%
Return on equity (ROE) after tax	11.27%	(8.52)%	12.32%
Cost/income ratio	54.40%	3.76%	52.43%
Return on assets (ROA) before tax	2.19%	(16.41)%	2.62%
Risk/earnings ratio	3.19%	(0.31)%	3.20%
Resources			
Number of staff on balance-sheet date	1,527	3.60%	1,474
Business outlets	86	0.00%	86

Pregled najvažnijih podataka

Raiffeisen banka a.d.			
Vrednosti su izražene u hiljadama dinara	2019	Promena	2018
Bilans uspeha			
Neto dobitak po osnovu kamata posle rezervisanja	9.782.060	3,54%	9.447.989
Neto dobitak po osnovu naknada i provizija	4.344.535	5,82%	4.105.419
Neto prihodi od trgovanja	263.368	413,47%	51.292
Administrativni troškovi	(9.686.230)	6,86%	(9.064.405)
Dobitak pre oporezivanja	6.992.894	(8,53)%	7.645.303
Dobitak posle oporezivanja	6.113.883	(7,76)%	6.628.209
Bilans stanja			
Plasmani bankama	13.550.612	17,24%	11.558.104
Plasmani klijentima	171.584.719	14,09%	150.387.617
Obaveze prema bankama	4.287.532	41,12%	3.038.158
Obaveze prema klijentima	251.813.778	10,50%	227.889.691
Kapital	57.891.193	(0,03)%	57.908.928
Bilans stanja (ukupno	318.903.137	9,24%	291.924.334
Kontrolne informacije			
Ukupni sopstveni kapital	50.980.553	1,08%	50.437.418
Potreban sopstveni kapital	17.448.427	(0,54)%	17.542.514
Adekvatnost kapitala (osnovni kapital)	23,37%	1,61%	23,00%
Adekvatnost kapitala (ukupni kapital)	23,37%	1,61%	23,00%
Pokazatelji poslovanja			
Stopa povraćaja kapitala pre oporezivanja	12,90%	(9,03)%	14,18%
Stopa povraćaja kapitala posle oporezivanja	11,27%	(8,52)%	12,32%
Odnos rashoda i prihoda	54,40%	3,76%	52,43%
Stopa povraćaja aktive	2,19%	(16,41)%	2,62%
Učešće ispravke vrednosti u neto prihodima od kamate	3,19%	(0,31%	3,20%
Izvori			
Broj zaposlenih na dan bilansa	1.527	3,60%	1.474
Broj poslovnica	86	0,00%	86

Contents

Sadržaj

Report of the Board of Directors

Ladies and Gentlemen,

It is my pleasure to inform that Raiffeisen banka a.d. Beograd completed the financial year 2019 with very good results. The bank responded to market challenges very well and adapted its business model to the changing environment. In 2019, the bank recorded a significant increase in loan activities in all business segments. Also, it continued investing in the digital transformation of its business and introduced a number of new and cutting-edge services and technological solutions. Recognition of the bank's endeavors in this respect was demonstrated by being awarded as "Best Consumer Digital Bank in Serbia", by Global Finance magazine, for the second year in a row.

In its 19 years of business in Serbia, Raiffeisen banka has proven to be a reliable partner to its clients, able to offer services in line with the most contemporary banking standards, but also tailored to the particular needs of local clients.

In the 2019 financial year, the members of the Board of Directors held 8 meetings. The overall attendance rate for Board of Directors meetings was around 90 per cent.

The Board of Directors regularly and comprehensively monitored the business performance and risk developments at Raiffeisen banka a.d. Beograd. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity, as well as on the direction of the bank's business and risk strategies. The Board of Directors also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies.

In the course of its monitoring and advisory activities, the Board of Directors maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives from supervisory authorities on topical issues.

Moreover, the Management Board provided the Board of Directors with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Board of Directors maintained contact with the Chairman and members of the Management Board. The Management Board was available when required for bilateral or multilateral discussions with members of the Board of Directors, where applicable with the involvement of experts on matters being addressed.

The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Board of Directors passed resolutions after fully considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Board of Directors without delay and to their satisfaction.

In order to fulfil statutory duties regarding the supervision of the financial reporting process and reporting practices in the bank, which includes the review and adoption of the financial statements and review of external audit reports, the Board of Directors regularly discussed financial reporting matters and external audit reports, findings and recommendations with the Audit Committee, but also with external auditors.

Keeping in mind the significance of an adequate capital base for the fulfilment of the overall strategy, the capital management strategy and plan was one of the focus topics for the monitoring activities of the Board of Directors in 2019. These activities included the review and adoption of the ICAAP report, but also discussion with the Managing Board on the SREP requirement and preliminary SREP review results which were issued by the regulator in November 2019.

I would like to take this opportunity to thank our customers for their continued trust and all the employees of Raiffeisen banka for their hard work and unwavering efforts in 2019, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Board of Directors

Peter Lennkh,
Chairman of the Board of Directors

Izveštaj predsednika Upravnog odbora

Dame i gospodo,

Zadovoljstvo nam je što možemo da objavimo da je Raiffeisen banka a.d. Beograd završila finansijsku 2019. godinu sa veoma dobrim rezultatima. Banka je odlično odgovorila na izazove tržišta i prilagodila svoje poslovanje promenljivom okruženju. U 2019. godini, banka je zabeležila značajno uvećanje kreditnih aktivnosti u svim poslovnim segmentima. Takođe, nastavila je ulaganje u digitalnu transformaciju svog poslovanja i uvela niz novih, najmodernijih usluga i tehnoloških rešenja. Dokaz napora banke u ovom smislu jeste i nagrada „Najbolja digitalna banka u Srbiji" koju je banci drugu godinu zaredom dodelio časopis Global Finance.

Tokom 19 godina poslovanja u Srbiji, Raiffeisen banka je potvrdila da je svojim klijentima pouzdan partner koji može da ponudi usluge u skladu sa najsavremenijim standardima u bankarstvu, a ujedno i skrojene po specifičnim potrebama lokalnih klijenata.

Tokom 2019. godine, članovi Upravnog odbora održali su 8 skupština. Ukupna stopa učešća na sastancima Upravnog odbora u finansijskoj 2019. godini bila je 90%.

Upravni odbor je redovno i sveobuhvatno pratio poslovni učinak i razvoj rizika u poslovanju Raiffeisen banke a.d. Beograd. Redovno su održavane diskusije sa Izvršnim odborom u pogledu adekvatnosti kapitala i likvidnosti, kao i u pogledu usmerenja poslovanja Raiffeisen banke i njenih strategija u vezi sa upravljanjem rizicima. Upravni odbor se takođe detaljno bavio daljim razvojem u segmentu održivog i odgovornog korporativnog upravljanja i pratio implementaciju odgovarajuće poslovne politike.

Tokom svojih nadzornih i savetodavnih aktivnosti, Upravni odbor održavao je direktne kontakte sa nadležnim članovima Izvršnog odbora, revizorima i rukovodiocima internih funkcija kontrole. Takođe, održavao je stalnu razmenu informacija i mišljenja sa predstavnicima Upravnih tela banaka na teme od interesa.

Pored toga, Izvršni odbor je redovnim i detaljnim izveštajima obaveštavao Upravni odbor o relevantnim pitanjima koja se tiču datih poslovnih segmenata. Između sastanaka, Upravni odbor je takođe održavao kontakt sa predsednikom Izvršnog odbora i članovima Izvršnog odbora. Izvršni odbor bio je dostupan kada je to bilo potrebno za bilateralne ili multilateralne diskusije sa članovima Upravnog odbora, po potrebi uz uključivanje stručnjaka za pitanja kojima se bavio Upravni odbor.

Posao koji je obavljen zajedno sa Izvršnim odborom zasnovan je na odnosima međusobnog poverenja i obavljen u duhu efikasne i konstruktivne saradnje. Diskusije su bile otvorene i kritične, a Upravni odbor doneo je odluke nakon razmatranja svih stavova. Ukoliko su bile potrebne dodatne informacije kako bi se pojedinačna pitanja dublje razmotrila, to je članovima Upravnog odbora obezbeđeno bez kašnjenja i na njihovo zadovoljstvo.

Kako bi se ispunile zakonom propisane obaveze u pogledu supervizije procesa finansijskog izveštavanja i praksi izveštavanja u banci, što uključuje razmatranje i usvajanje finansijskih izveštaja i razmatranje izveštaja eksterne revizije, Upravni odbor je pitanja od značaja za finansijsko izveštavanje, izveštaje, nalaze i preporuke eksterne revizije razmatrao sa Odborom za reviziju, ali i sa eksternim revizorima.

Imajući u vidu značaj adekvatne kapitalne baze za ispunjenje celokupne strategije, strategija upravljanja kapitalom i plan bili su jedna od vodećih tema aktivnosti nadzora Upravnog odbora u 2019. godini. Ove aktivnosti uključivale su pregled i usvajanje izveštaja ICAAP, ali i diskusiju sa Izvršnim odborom u pogledu zahteva procesa supervizorskog nadgledanja i procene (SREP), kao i preliminarne SREP rezultate koje je objavio regulator u novembru 2019. godine.

Želeo bih da iskoristim ovu priliku i zahvalim se svim našim klijentima na njihovom kontinuiranom poverenju, a ujedno i svim zaposlenima Raiffeisen banke a.d. Beograd na njihovom velikom trudu i zalaganju u 2019. godini, kao i da ih zamolim za dalju posvećenost u rešavanju svih izazova u budućnosti.

U ime Upravnog odbora,

Predsednik Upravnog odbora
Peter Lennkh

Introductory Address by the Chairman of the Managing Board

Dear shareholders, business partners and colleagues,

It is my pleasure to inform you, in the name of the Managing Board of Raiffeisen banka a.d. Beograd, that the year 2019 was very successful for us. You will find more details in the following pages of this report concerning all segments and key business indicators. I would like to point out that the key themes for us in 2019 were digitalization and transformation, but also growth. The latter is again coming into greater focus both in lending in the large companies and small businesses segment, as well as for private individuals. This makes me especially pleased, because it is an indicator that the banking industry is again on a more stable base, as well as the entire economic environment.

In the year 2019, the bank realized a profit before tax amounting to € 59.3 million, thus exceeding the targeted goals and despite the unplanned and significant expenditures relating to the conversion of CHF loans. Especially important was that, at a time of great competition in the market and a "battle" between banks for each client, we recorded significant growth in our client base over the course of the financial year. The greatest driver behind this was certainly all our initiatives and projects, the overarching aim of which was to improve and modernize services.

The year 2019 also saw the continuing of the large project of transformation of the bank's branch network and introduction of the most up to date technological solutions into its branch offices. Innovations were implemented in products and services and it can be rightly said that our bank revolutionized the loan market by introducing the first fully online cash loan not only in the local market but also in the region. Significant improvements were made in electronic and mobile banking, and our chat bot Rea is still the only digital banking assistant in Serbia based on artificial intelligence. Our achievements in the digital segment did not go unnoticed, and the bank received the prestigious title of "Best Digital Bank in Serbia" by renowned financial magazine Global Finance for the second year in a row.

This award further demonstrates that we are in step with the best in this field. This is particularly important when we bear in mind that banking institutions were established with traditional business models and are now facing a comprehensive transformation process in order to stay competitive in the ever-changing environment. Raiffeisen banka has recognized this challenge and this award is not only recognition for all that has been achieved so far, but also serves as an obligation to continually introduce innovative changes.

I am proud of the fact that we have also already begun working on strategic changes within the company, primarily by becoming an adaptive organization and working in agile teams which are able to create products and services in a more efficient and flexible manner and thus create added value for our clients and for the entire bank as well. We need to make banking easier and available at any time for our clients whose needs are ever-changing, and the most effective way is to continuously develop and to offer top-quality digital products, services and innovations.

Raiffeisen banka supports Raiffeisen Leasing and Raiffeisen Future Voluntary Pension Fund Asset Management Company to a great extent, as well as the Raiffeisen Invest Investment Fund Management Company. Our funds have realized excellent results and are in the leading positions in their respective segments. As their founder, Raiffeisen banka is proud of the results they are achieving and which also contribute to the strengthening of our brand and its renown in the local market.

Uvodna reč predsednika Izvršnog odbora

Poštovani akcionari, poslovni partneri i kolege,

Zadovoljstvo mi je da vas, u ime Izvršnog odbora Raiffeisen banke a.d. Beograd, obavestim da je 2019. godina za nas bila veoma uspešna. Više detalja koji se tiču svih segmanta i ključnih poslovnih pokazatelja naći ćete u narednim stranama ovog izveštaja. Želeo bih da naglasim da su ključne teme za nas u 2019. godini bile digitalizacija i transformacija, a takođe i rast. Ovo poslednje opet dolazi u jači fokus, kako u segmentu kreditiranja velikih kompanija i malih preduzeća, tako i fizičkih lica. Ovo me čini posebno zadovoljnim jer je pokazatelj toga da je bankarsko poslovanje ponovo na stabilnijoj osnovi, kao i čitavo ekonomsko okruženje.

U 2019. godini, banka je ostvarila profit pre oporezivanja u iznosu od 59,3 miliona evra, premašivši tako postavljene ciljeve, uprkos neplaniranim i značajnim troškovima u vezi sa konverzijom kredita u švajcarskim francima. Posebno značajno je to što smo u vremenu velike konkurencije na tržištu i „borbe" banaka za svakog klijenta, zabeležili značajan rast naše baze klijenata u toku finansijske godine. Najveći pokretač svega ovoga svakako su bile sve naše inicijative i projekti, čiji je osnovni cilj da poboljšaju i modernizuju usluge.

Tokom 2019. godine takođe smo nastavili obiman projekat transformacije poslovnica banke, kao i uvođenje najsavremenijih tehnoloških rešenja u poslovnice. Inovirani su proizvodi i usluge, a može se s pravom reći da je banka izvršila revoluciju na tržištu kredita uvođenjem prvog u potpunosti onlajn keš kredita ne samo na lokalnom tržištu, već i u regionu. Značajna poboljšanja izvršena su u elektronskom i mobilnom bankarstvu, a naš čet bot Rea još uvek je prvi digitalni bankarski asistent u Srbiji koji radi na osnovu veštačke inteligencije. Naša dostignuća u digitalnom segmentu nisu prošla nezapaženo i banka je drugu godinu zaredom osvojila prestižnu titulu „Najbolja digitalna banka u Srbiji" koju joj je dodelio renomirani finansijski časopis Global Finance.

Ova nagrada, osim toga, pokazuje da idemo u korak sa najboljima u ovoj oblasti. To je naročito značajno ako imamo u vidu da su bankarske institucije zasnovane na tradicionalnim poslovnim modelima i da se sada suočavaju sa obimnim procesima transformacije kako bi ostale konkurentne u okruženju koje se konstantno menja. Raiffeisen banka je prepoznala ovaj izazov i ova nagrada nije samo priznanje za sve ono što je do sada učinjeno, već je i obaveza da se kontinuirano uvode inovativne promene.

Ponosan sam na činjenicu da smo već počeli da radimo na strateškim promenama u okviru kompanije, prvenstveno tako što postajemo prilagodljiva organizacija i radimo u agilnim timovima, koji su u mogućnosti da kreiraju proizvode i usluge na efikasniji i fleksibilniji način i tako stvore dodatnu vrednost za naše klijente, a time i za celu banku. Potrebno je da bankarstvo učinimo jednostavnijim i dostupnim u svako doba za naše klijente čije potrebe se stalno menjaju, a najefikasniji način za to jeste da kontinuirano razvijamo i nudimo digitalne proizvode, usluge i inovacije najvišeg kvaliteta.

Raiffeisen banka u velikoj meri pruža podršku radu kompanija Raiffeisen Leasing, Raiffeisen Future Dobrovoljnom društvu za upravljanje penzionim fondovima, kao i Raiffeisen Invest Društvu za upravljanje investicionim fondovima. Naši fondovi su ostvarili odlične rezultate i u vodećim su pozicijama u svojim segmentima. Kao njihov osnivač, Raiffeisen banka je ponosna na rezultate koje ostvaruju, a koji takođe doprinose jačanju našeg brenda i njegove reputacije na lokalnom tržištu.

After 19 years of business activities in Serbia, business results are very important but what we always proudly focus on, and what the public recognizes us for, is also the fact that the bank and its employees are led by the principle of socially responsible business. Therefore, each year we are "paying back" to the communities in which we do business, through offering support to vulnerable parts of society and investing in partnerships in arts, culture and sports.

Future plans include continuing the transformation of the bank's work processes, improving its offer and digitalizing all segments of business. Special focus and significant resources have already been invested for these purposes and we will continue investing in the years ahead as well. We will certainly not lose sight of another very important traditional aspect of our business – maintaining highly professional partnerships with clients and good relations with the communities in which we do business.

Zoran Petrović
Chairman of the Managing Board

Nakon 19 godina poslovanja u Srbiji, poslovni rezultati jesu važni, ali ono na šta smo uvek ponosni i zbog čega nas javnost prepoznaje, jeste činjenica da se banka i njeni zaposleni rukovode principom društveno odgovornog poslovanja. Zbog toga svake godine "vraćamo" zajednici u kojoj poslujemo, pružajući podršku najranjivijim segmentima društva i ulažući u partnerstva na polju kulture, umetnosti i sporta.

Budući planovi uključuju nastavak transformacije poslovnih procesa banke, poboljšanje njene ponude i digitalizaciju svih segmenata poslovanja. Poseban fokus i značajni resursi već su uloženi s ovim ciljem, a nastavićemo da investiramo i u godinama koje dolaze. Naravno, nećemo izgubiti iz vida ni drugi važan aspekt našeg poslovanja – održavanje visoko profesionalnih partnerstava sa klijentima i dobrih odnosa sa zajednicom u kojoj poslujemo.

Zoran Petrović
Predsednik Izvršnog odbora

Vision, Mission & Values Statement of Raiffeisen banka a.d. Beograd

SHAPING FUTURE TOGETHER

VISION 2025

We are the most recommended financial services group.

MISSION

We transform continuous innovation into superior customer experience.

VALUES

COLLABORATION
We work together – If we work with each other, talk to each other, listen to each other and support each other, we can achieve so much more. We create an environment of mutual understanding, respect and trust.
We encourage diversity. Together with our colleagues, our partners and our customers we achieve more than individually.

PROACTIVITY
We are proactive – We believe in looking ahead. We drive change. Concentrating on the possibilities rather than the impossibilities. Replacing indecision with decision. Action instead of reaction. By being courageous and determined, we can make a difference. Even a little progress every day leads to big results.

LEARNING
We are eager to learn – Learning means personal progress. We learn from experience, education and sharing. Experimenting and applying new knowledge may involve failure, but failure can be a great teacher if we learn from it. Curiosity and learning help us innovate.

RESPONSIBILITY
We act responsibly – If each of us takes responsibility, we can change a lot. Individually and together, we own our decisions. We are accountable for the results of our work. We always think about the consequences of our actions.
We are responsible members of society and build sustainable business.

Vizija,misija i vrednosti Raiffeisen banke a.d. Beograd

ZAJEDNO STVARAMO BUDUĆNOST

VIZIJA 2025

Mi smo najpreporučivanija finansijska grupacija.

MISIJA

Kontinuirane inovacije oblikujemo u superiorno korisničko iskustvo.

VREDNOSTI

SARADNJA
Radimo zajedno – ako sarađujemo, razgovaramo jedni sa drugima, slušamo i podržavamo jedni druge, možemo da postignemo mnogo više. Stvaramo okruženje uzajamnog razumevanja, poštovanja i poverenja.
Ohrabrujemo raznolikost. Sarađujući sa našim kolegama, našim partnerima i našim klijentima ostvarujemo više nego kao pojedinci.

PROAKTIVNOST
Mi smo proaktivni – verujemo u budućnost. Iniciramo promene. Usmereni smo na mogućnosti. Neodlučnost zamenjujemo odlučnošću. Akcija umesto reakcije.
Hrabrošću i odlučnošću možemo da napravimo razliku. Čak i mali svakodnevni napredak dovodi do velikih rezultata.

UČENJE
Želimo da učimo – učiti znači lični napredak. Učimo iz iskustva, kroz obrazovanje i razmenu znanja. Eksperimentisanje i primena novih znanja može da podrazumeva i neuspeh, ali neuspeh može da bude veliki učitelj ako iz njega naučimo. Radoznalost i učenje pomažu nam da budemo inovativni.

ODGOVORNOST
Ponašamo se odgovorno – ako svako od nas preuzme odgovornost, možemo mnogo da promenimo. Pojedinačno i zajedno, stojimo iza svojih odluka. Odgovorni smo za rezultate svog rada. Uvek razmišljamo o posledicama našeg delanja. Odgovorni smo članovi društva i gradimo održivo poslovanje.

Raiffeisen Bank International at a Glance

RBI regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market.

Subsidiary banks cover 13 markets across the region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, almost 47,000 RBI employees serve 16.7 million customers in more than 2,000 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2018, RBI's total assets stood at € 152 billion. The regional Raiffeisen banks hold approximately 58.8 percent of RBI shares, with the remaining approximately 41.2 percent in free float.

Kratak pregled Raiffeisen Bank International

Raiffeisen Bank International AG (RBI), svojim matičnim tržištem smatra Austriju, gde je vodeća privredna i investiciona banka, kao i srednju i istočnu Evropu.

Mreža poslovnica pokriva 13 tržišta širom ovog regiona. Pored toga, grupacija obuhvata brojne druge kompanije pružaoce finansijskih usluga aktivnih u segmentima kao što su lizing, upravljanje sredstvima, kao i pripajanja i akvizicije.

Ukupno oko 47.000 zaposlenih u mreži RBI uslužuje 16,7miliona klijenata u preko 2.000 poslovnica, prvenstveno u srednjoj i istočnoj Evropi. Deonice RBI AG listirane su na Bečkoj berzi od 2005. godine.

Krajem 2018. godine, ukupna aktiva RBI iznosila je 152 milijardi evra. Regionalne Raiffeisen banke drže oko 58,8% deonica RBI-a, do je ostatak od 41,2% u slobodnoj prodaji.

Macroeconomic Environment, Opportunities for Foreign Investors and Perspectives

The government of Serbia presented its new investment plan "Serbia 2025" worth € 14 billion at the end of 2019. It was planned that the largest part of the funds be invested into road infrastructure (€ 5 billion), railroad infrastructure (€ 3.5 billion), etc. According to government representatives, this project will be financed from the budget, but also from credit lines of international financial institutions.

It was planned to begin the project this year. The investment plan is leaning on infrastructure projects already underway, but has a wider range and although its goal is raising the quality of the investment environment, it is the result of the government's insight that by actively supporting domestic consumption they can prevent a potential negative influence of the slowing down of the eurozone's economic growth onto domestic industrial production from the second half of 2018. Namely, the physical production volume has been constantly slowing down since 2015 (plus 8.3 per cent) to 0.3 per cent in 2019, due to decreasing demand of local products in the EU.

The process of opening chapters as part of the negotiation process on joining the EU has been continued by opening the following chapters: Chapter 9 – Financial Services and Chapter 4 – Free Movement of Capital. So far, 18 out of a total of 35 chapters have been opened in negotiations on Serbia's accession to the EU, and two chapters have been closed temporarily. The new President of the European Commission stressed in her first address to the European Parliament that the doors of the EU would remain open for the Western Balkans.

The Executive Board of the International Monetary Fund (IMF) completed the third revision as part of the 30-month "Policy Coordination Instrument" (PCI), initially signed in July 2018. This institution has positively marked the implementation of the economic program, as well as the Law on Budget for the year 2020, which provides the downsizing of public debt, and on the other hand, it opens the space for capital investments and lower taxing costs. According to this institution, structural reforms are improving, but it is still necessary to speed up the process in some segments.

Rating agencies "Fitch" and "Standard and Poor's" have increased the country's credit rating from BB to BB+. Apart from this, "Standard and Poor's" improved the outlook for further credit rating improvement to positive. The rating improvement followed as the opinion of both agencies that the government is applying a consistent economic policy aimed at strengthening macro-economic indicators and reducing public debt. "Standard and Poor's" expects that fiscal stability will be maintained in the following period.

Further inflow of foreign direct investments which would support the growth of exports and the GDP, as well as further reduction of public debt are key factors for the further increase of the credit rating. The government and the National Bank of Serbia (NBS) hope that the country will obtain an investment rating by the end of 2020, as a result of the dedication of these institutions to leading a prudent fiscal and monetary policy.

Macroeconomic Trends

According to the Republic Statistics Bureau, GDP growth in 2019 has been estimated to 4.0 per cent, after 4.4 per cent in 2018. Gross investments into fixed assets contributed to strong economic growth (plus 14.2 per cent annually), the Turkish stream pipeline to be more precise. Also, individual consumption contributed to strong GDP growth as well (plus 9,2 per cent).

Regarding industries, the greatest contribution to GDP growth came from construction (28.5 per cent), mostly because of infrastructural projects but also private investments into residential facilities. The turnover in retail trade grew as a result of salaries' growth in the nominal and in the real amount.

The GDP growth rate (GDP, real amount) in the fourth quarter increased its dynamics to 6.2 per cent, after 4.8 per cent, 2.9 per cent and 2.6 per cent in the third, second and first quarter respectively. A somewhat lower base in the fourth quarter of 2018 (3.5 per cent), as well as the recovery of investment activity with a growth rate of 29.6 per cent after 17.5 per cent, 8.2 per cent and 7.2 per cent in the third, second and first quarter respectively, contributed to economic growth recovery in the last quarter.

Makroekonomsko okruženje, mogućnosti za strane investitore i perspektive

Vlada Srbije je krajem 2019. godine predstavila novi investicioni plan „Srbija 2025" koji je vredan 14 milijardi evra. Planirano je da najveći deo sredstava bude investiran u putnu infrastrukturu (5 milijardi evra), železničku infrastrukturu (3,5 milijarde evra), itd. Prema rečima predstavnika Vlade, ovaj projekat će biti finansiran iz budžeta, ali i iz kredita međunarodnih finansijskih institucija.

Planirano je da projekat bude pokrenut ove godine. Investicioni plan se naslanja na već pokrenute infrastrukturne projekte, ali je šireg obuhvata i iako ima za cilj podizanje kvaliteta investicionog ambijenta, rezultat je sagledavanja Vlade da podsticanjem domaće potrošnje spreče potencijalno negativni uticaj usporavanja rasta ekonomije evrozone na domaću industrijsku proizvodnju od polovine 2018. godine. Naime, fizički obim proizvodnje beleži konstantno usporavanje od 2015. godine (+8,3%) na 0,3% u 2019. godini, i to usled usporavanja tražnje EU za domaćim proizvodima.

Proces otvaranja poglavlja u okviru pregovaračkog procesa pridruživanja Evropskoj uniji nastavljen je otvaranjem sledećih poglavlja: 9, poglavlje o finansijskim uslugama i poglavlje 4, o slobodi kretanja kapitala. Do sada je u pregovorima o prijemu Srbije u EU otvoreno 18 od ukupno 35 poglavlja, a privremeno su zatvorena dva. Nova predsednica Evropske komisije naglasila je u svom prvom obraćanju evropskom parlamentu da vrata EU ostaju otvorena za zapadni Balkan.

Izvršni odbor Međunarodnog monetarnog fonda (MMF) završio je treću reviziju u okviru 30-mesečnog "Instrumenta koordinacije politika" (PCI) koji je inicijalno potpisan u julu 2018. godine. Ova institucija pozitivno je ocenila sprovođenje ekonomskog programa, kao i Zakona o budžetu za 2020. godinu koji obezbeđuje silaznu putanju javnog duga, a sa druge strane otvara prostor za kapitalne investicije i niže troškove oporezivanja. Prema instituciji, strukturne reforme napreduju, ali je ipak potrebno ubrzati proces u nekim segmentima.

Rejting agencije „Fitch" i „Standard and Poor's" povećale su kreditni rejting zemlje na BB+ sa BB. Pored toga, „Standard and Poor's" poboljšao je i izglede za dalje povećanje kreditnog rejtinga na pozitivan. Poboljšanje rejtinga usledilo je kao ocena obe agencije da Vlada vodi konzistentnu ekonomsku politiku koja je usmerena ka jačanju makro-ekonomskih indikatora i smanjenja javnog duga. „Standard and Poor's" očekuje da će fiskalna stabilnost biti očuvana i u narednom periodu.

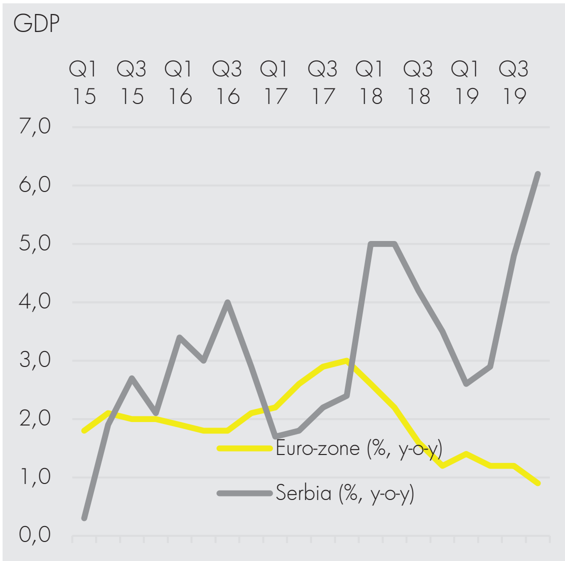
Dalji priliv stranih direktnih investicija, koji bi podržao rast izvoza i BDP-a, kao i dalje smanjenje javnog duga ključni su faktori za dalje povećanje kreditnog rejtinga. Vlada i Narodna banka Srbije (NBS) nadaju se da će zemlja dobiti investicioni rejting do kraja 2020. godine, a kao rezultat posvećenosti ovih institucija vođenju prudentne fiskalne i monetarne politike.

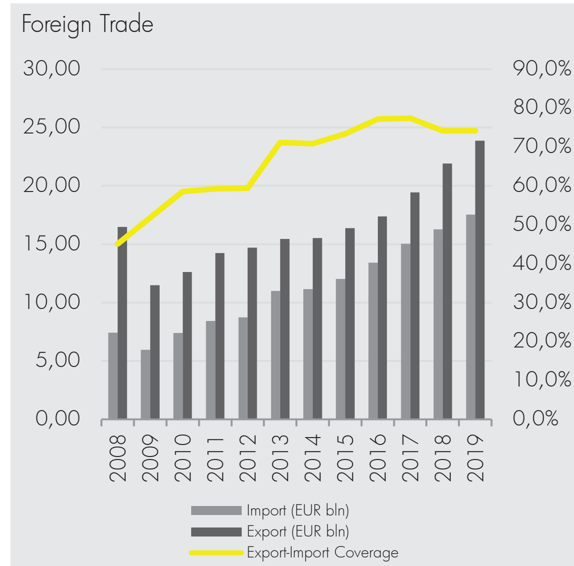
Makroekonomski trendovi

Prema RZZS-u, rast BDP-a u 2019. godini procenjen je na 4,0%, posle 4,4% u 2018. godini. Snažnom rastu ekonomije doprinele su bruto investicije u osnovna sredstva (+14,2% godišnje), tačnije projekat Turskog toka. Takođe, lična potrošnja je svojim snažnim rastom (+9,2%) doprinela rastu BDP-a.

Gledano sa strane sektora, najveći doprinos rastu BDP-a došao je od građevinarstva (28,5%), ponajviše zbog infrastrukturnih projekata ali i privatnih investicija u rezidencijalne objekte. Promet u trgovini na malo bio je u porastu usled rasta plata u nominalnom i realnom iznosu.

Stopa rasta bruto domaćeg proizvoda (BDP, realni iznos) u četvrtom kvartalu povećala je dinamiku na 6,2% posle 4,8%, 2,9% i 2,6% u trećem, drugom i prvom kvartalu respektivno. Nešto niža baza u 4. kvartalu 2018. godine (3,5%), kao i oporavak investicione aktivnosti sa stopom rasta od 29,6% posle 17,5%, 8,2% i 7,2% u trećem, drugom i prvom kvartalu respektivno, doprineli su oporavku rasta ekonomije u poslednjem kvartalu.





Investment recovery partially came from the private sector, as viewed through the strong growth of banks' investment credits, but still this was mostly due to the start of new infrastructural projects. The net negative effect of exports is a lot lower compared to the previous year, due to the slowing down of import growth. Individual consumption showed a stable growth rate (3.1 per cent) due to slight income growth, while state consumption was reduced in the fourth quarter to 2.5 per cent.

As concerns industries, the greatest growth rate came from construction (48.3 per cent), which contributed to GDP creation by 7.3 per cent, while the key industries in the sense of contributing to GDP growth (19.5 per cent), processing and energy, after two quarters of negative growth, finally registered growth in the third quarter (2.1 per cent) and in the fourth quarter (3.1 per cent), which happened after the opening of production capacities which were being reconstructed during the past months.

Retail and wholesale trade (plus 8.1 per cent), information and communication (plus 8.5 per cent), as well as the financial industry (plus 5.6 per cent) still record healthy growth rates. Agriculture finally registered some growth after two quarters of negative growth.

It is evident that domestic factors (citizens' consumption, completion of the savings program in the public sector and new investment projects of the state through infrastructural projects) mostly contribute to GDP growth and help to dampen the negative effect of slowing down the EU economy which already impacts the slowing down of export and industrial production.

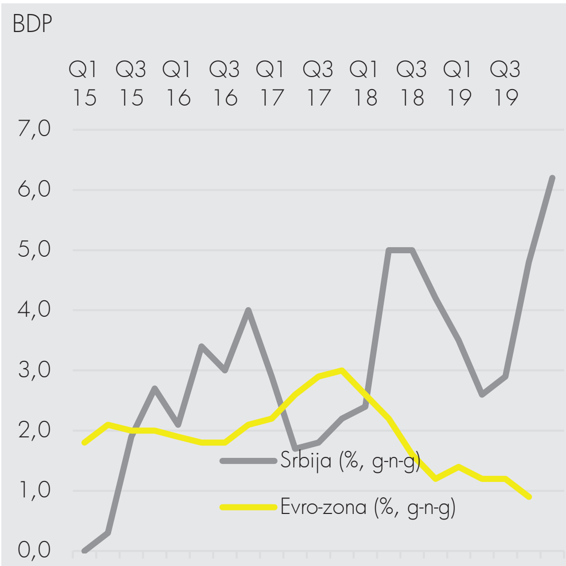
Unemployment rate grew slightly in the fourth quarter to 9.7 per cent from 9.5 per cent in the third quarter, 10.3 per cent in the second quarter and 12.1 per cent in the first quarter of 2019. When we compare the fourth quarter of 2019 with the same quarter of 2018, when the unemployment rate amounted to 12.9 per cent, unemployment was reduced by 102.5 thousand due to employment growth (12.8 thousand), but also for the greater part by decreased inactivity (48.3 thousand).

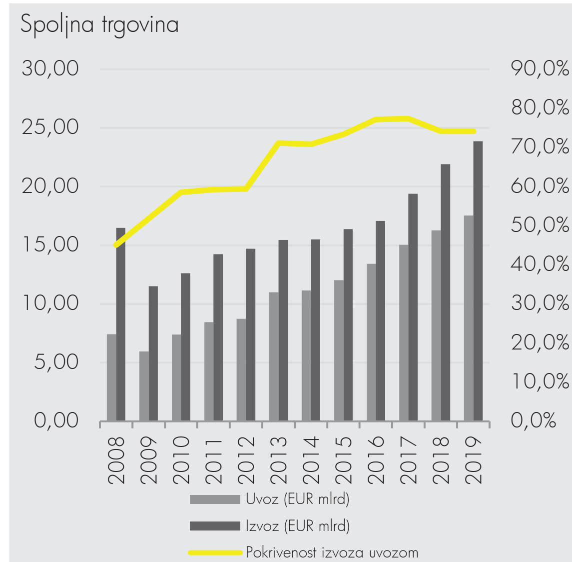
A positive trend was noted in formal employment which registers greater growth (56.2 thousand) in processing industry and construction, compared to informal employment (46.7 thousand). Compared to the second quarter of 2019, employment grew by 22.2 thousand, mostly in agriculture, due to greater seasonal works.

The slowing down of industrial production in 2019 (plus 0.9 per cent since the start of the year) compared to 2018 (plus 1.3 per cent since the start of the year) is the result of the slowing down of growth of the processing industry (plus 0.2 per cent since the start of the year), compared to 1.9 per cent in 2018. Mining improved growth to 1.2 per cent since the start of the year compared to the slump of 4.8 per cent in 2018, while production and electricity, gas, steam and air conditioning had a weaker result (plus 0.5 per cent since the start of the year), compared to 1.2 per cent in 2018.

Growth in industrial production and processing industry in 2019 was the lowest since 2014, when the country was hit by great floods. Apart from the very competitive domestic terms (high inflow of foreign direct investments, the macro-economic stability achieved and growth in crediting activity), external factors contributed to this result. Namely, increased risks on global markets (trade war threat, Brexit and other risks present) resulted in the slowing down of EU economy, and thus the export demand for domestic products.

Only about half of the segments (13 of 24) registered positive growth rates, however, the physical production volume was reduced significantly. This indicator only grew by 0.3 per cent in 2019, after reaching its maximum in 2015 (plus 8.3 per cent annually). The processing industry growth was boosted by production growth of metal products (except machinery), basic metals, computers, paper and paper products, as well as basic pharmaceutical products.





Oporavak investicija došao je delimično iz privatnog sektora, gledano preko snažnog rasta investicionih kredita banaka, ali ipak većim delom usled pokretanja novih infrastrukturnih projekata. Neto negativan efekat izvoza dosta je niži u odnosu na prethodnu godinu usled usporavanja rasta uvoza. Lična potrošnja imala je stabilnu stopu rasta (3,1%) usled blagog rasta zarada, dok se potrošnja države smanjila u četvrtom kvartalu na 2,5%.

Što se tiče industrija, najvišu stopu rasta ostvarilo je građevinarstvo (48,3%), čiji doprinos stvaranju BDP-a iznosi 7,3%, dok je ključni sektor u smislu doprinosa rastu BDP-a (19,5%), prerađivački sektor i energetika, posle dva kvartala negativnog rasta konačno zabeležila rast u trećem kvartalu (2,1%) I u četvrtom kvartalu (3,1%), koji je došao usled stavljanja u funkciju proizvodnih kapaciteta koji su bili u rekonstrukciji prethodnih meseci.

Trgovina na veliko i malo (+8,1%), informisanje i komunikacije (+8,5%), kao i finansijski sektor (+5,6%) i dalje beleže zdrave stope rasta. Poljoprivreda je konačno ostvarila rast posle dva kvartala negativnog prirasta.

Evidentno je da domaći faktori (potrošnja stanovništva, završetak programa štednje u javnom sektoru i novi investicioni projekti države kroz infrastrukturne projekte) najviše doprinose rastu BDP-a i pomažu da se ublaži negativan efekat usporavanja EU ekonomije koji već utiče na usporavanje izvoza i industrijske proizvodnje.

Stopa nezaposlenosti je blago porasla u četvrtom kvartalu na 9,7% posle 9,5% u trećem kvartalu na, 10,3% u drugom kvartalu i 12,1% u prvom kvartalu 2019. godine. Kada poredimo četvrti kvartal 2019. godine sa istim kvartalom 2018. godine, kada je stopa nezaposlenosti iznosila 12,9%, nezaposlenost je smanjena za 102,5 hiljada usled rasta zapošljavanja (12,8 hiljada), ali i većim delom pada neaktivnosti (48,3 hiljade).

Pozitivan trend uočen je kod formalne zaposlenosti koja beleži veći rast (56,2 hiljada) i to u prerađivačkoj industriji i građevinarstvu, u odnosu na neformalno zapošljavanje (46,7 hiljada). U poređenju sa 2. kvartalom 2019. godine, zaposlenost je porasla za 22,2 hiljade i to uglavnom u poljoprivredi, usled povećanih sezonskih radova.

Usporavanje rasta industrijske proizvodnje u 2019. godini (+0,9% od početka godine) u poređenju sa 2018. godinom (+1,3% od početka godine) rezultat je usporavanja rasta prerađivačkog sektora (+0,2% od početka godine) u poređenju sa 1,9% u 2018. godini. Rudarstvo je oporavilo rast na 1,2% od početka godine u odnosu na pad od 4,8% u 2018. godini, dok je proizvodnja i snabdevanje električnom energijom, gasom, parom i klimatizacijom imala slabiji rezultat (+0,5% od početka godine) u odnosu na 1,2% u 2018. godini.

Rast industrijske proizvodnje i prerađivačkog sektora u 2019. godini najniži je od 2014. godine kada je zemlja bila pogođena velikim poplavama. Pored vrlo povoljnih domaćih uslova (visok priliv stranih direktnih investicija, postignuta makroekonomska ravnoteža i rast kreditne aktivnosti), eksterni faktori doprineli su ovom rezultatu. Naime, povećani rizici na globalnim tržištima (pretnja trgovinskog rata, Bregzit i ostali prisutni rizici) rezultirali su usporavanjem kako ekonomije EU, tako posledično i izvozne tražnje za domaćim proizvodima.

Tek nešto više od polovine sektora (13 od 24) beležilo je pozitivnu stopu rasta, međutim, značajno je smanjen fizički obim proizvodnje. Ovaj indikator porastao je za samo 0,3% u 2019. godini, nakon što je dostigao svoj maksimum u 2015. godini (+8,3% godišnje). Rast prerađivačke industrije bio je podstaknut rastom proizvodnje metalnih proizvoda (izuzev mašina), osnovnih metala, računara, papira i proizvoda od papira, kao i osnovnih farmaceutskih proizvoda.

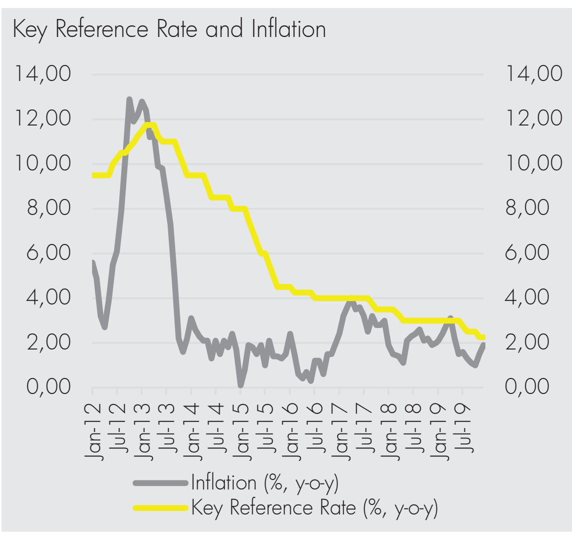
Export slowed down growth in 2019 (plus 7.7 per cent y-o-y), after a growth of 8.1 per cent y-o-y in 2018 due to the slowing down of export demand in the European Union, whose economy continued its weak growth in 2019 as well, but also due to the slowing down of steel export, after the EU introduced temporary quotas for exporting steel products, which had a direct influence on steel export of the HBIS Group, but also on the export of chemical products.

Export growth was generated by a growth in machine export (but not vehicles), produced goods (ferrous metals, rubber, paper), and a significant contribution to exports recovery in 2019 was made by food export (mostly grains). In the structure of exports, the key products are still electrical machinery, appliances and devices. The export structure is quite diversified thanks to the inflow of foreign direct investments into different industries, including: iron and steel, ferrous metals, caoutchouc products, clothes, chemical products and other.

The import growth rate also slowed down in 2019 (plus 8.9 per cent y-o-y) after 13 per cent y-o-y in 2018. Import growth was generated by import growth of metal ore and scrap metals, chemical products, food (fruit and vegetables, although we still make a surplus in the net export of wheat, fruit and vegetables), while slowing down is noticeable in machine import, which is maybe the result of the fact that the investment cycle was completed in one part of the economy.

Coverage of import by export fell slightly to 73.4 per cent in 2019, after 74.3 per cent in 2018. Foreign direct investments grew slightly by 37.3 per cent in the first eleven months of 2019 (€ 3.1 billion) and the growth was enhanced by subventions the government had approved for new investments, but also investors' trust in institutions after the balance achieved in the macroeconomic environment.

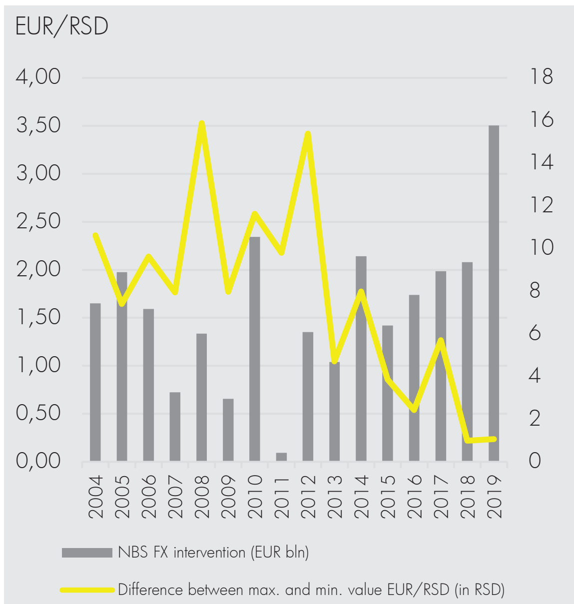
Inflation had a similar growth rate in 2019 (1.9 per cent annually) as in the previous year (2 per cent annually), but consumer prices in 2019 were three months below the lower rank of the inflation corridor (3 per cent plus/ minus 1.5 percentage points) and two months on the lower threshold.



Lower inflationary pressures were the result of low import prices, a strong dinar in relation to the euro, no correction of regulated prices and a weaker sentiment in the processing sector. At the end of the year, inflation started rising due to a correction of electrical energy prices for households. In 2019, the NBS lowered the key interest rate three times by a total of 75 basic points to 2.25% and maintained it at that level up to the end of the year.

Only the prices of clothes and shoes were decreasing (minus 1.1 per cent annually), while all the other categories of products and services marked a moderate growth compared to 2018, except the prices of housing, water, electricity, gas and other fuels, which grew by 2.9 per cent annually due to the already mentioned increase in prices, as well as prices of furniture reduction, household items and ongoing housing maintenance. The unemployment rate reduction has not yet reflected in a more significant growth of personal consumption that would induce the growth of basic inflation, which maintained a growth of only 1.1 per cent.

The dinar had a growth trend compared to the euro thanks to the inflow of FDIs (2019: € 3.6 billion), issuing of securities by the Ministry of Finance and increased investment crediting of banks. However, greater strengthening of the domestic currency was prevented by foreign currency interventions of the NBS in the FX market (€ 3.5 billion) which were at their highest level since 2004. As in 2018, (€ 1.8 billion), they were mostly on the purchasing side (€ 3.1 billion). Compared to 2018, the dinar nominally strengthened by 0.51 per cent and the difference between the minimal (117.43) and the maximal value (118.49) dinars amounted to only 1.06 dinars.



Izvoz je usporio rast u 2019. godini (+7,7% g-n-g), nakon rasta od 8,1% g-n-g u 2018. godini zbog usporavanja izvozne tražnje Evropske unije, čija ekonomija je nastavila sa slabim rastom u 2019. godini, ali i usled usporavanja izvoza čelika nakon što je EU uvela privremene kvote za izvoz proizvoda od čelika, što je direktno uticalo na izvoz čelika HBIS grupe, ali i na izvoz hemijskih proizvoda.

Rast izvoza bio je generisan rastom izvoza mašina (ali ne i automobila), proizvedenih dobara (obojeni metali, guma, papir), a značajan doprinos oporavku izvoza u 2019. godini dao je izvoz hrane (najviše žitarica). U strukturi izvoza i dalje je ključni proizvod električne mašine, aparati i uređaji. I dalje je struktura izvoza dosta diversifikovana zahvaljujući prilivu stranih direktnih investicija u različite sektore, uključujući: gvožđe i čelik, obojeni metali, proizvodi od kaučuka, odevni predmeti, hemijski proizvodi, i ostalo.

Stopa rasta uvoza takođe je usporila u 2019. godini (+8,9% g-n-g) posle 13% g-n-g u 2018. godini. Rast uvoza bio je generisan rastom uvoza metalnih ruda i otpadaka, hemijskih proizvoda, hrane (voća i povrća, iako i dalje ostvarujemo suficit u neto izvozu žitarica i voća i povrća), dok se usporavanje primećuje kod uvoza mašina, što je možda rezultat činjenice da je investicioni ciklus kod jednog dela privrede privreden kraju.

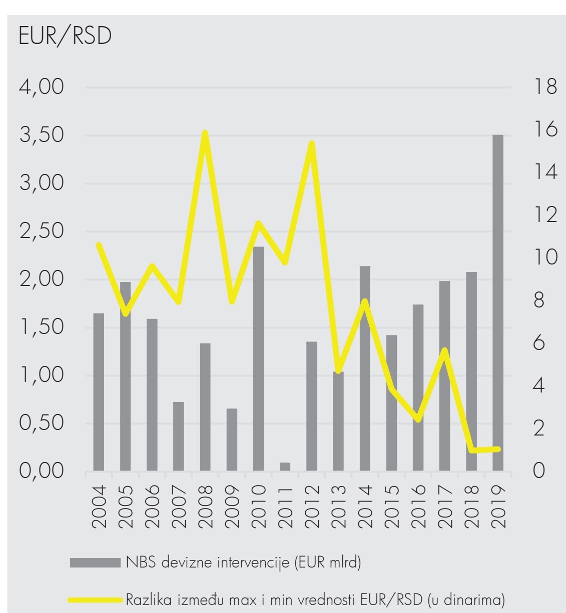
Pokrivenost uvoza sa izvozom blago je pala na 73,4% u 2019. godini posle 74,3% u 2018. godini. Strane direktne investicije porasle su za 37,3% u prvih jedanaest meseci 2019. godine (3,1 milijardi evra), a rast je bio podstaknut subvencijama koje je Vlada odobravala za nove investicije, ali i poverenjem investitora u institucije nakon postignute ravnoteže u makroekonomskom okruženju.

Inflacija je imala sličnu stopu rasta u 2019. godini (1,9% godišnje) kao i u prethodnoj godini (2% godišnje), ali su potrošačke cene u 2019. godini bile čak tri meseca ispod donjeg ranga inflacionog koridora (3% +/- 1,5pp) i dva meseca na donjoj granici.

Niži inflatorni pritisci bili su rezultat niskih uvoznih cena, jakog dinara u odnosu na evro, odsustva korekcije regulisanih cena i slabijeg sentimenta u prerađivačkom sektoru. Pred kraj godine, inflacija je počela da raste usled korekcije cena električne energije za domaćinstva. U toku 2019. godine, NBS je smanjila referentnu kamatnu stopu tri puta za ukupno 75 baznih poena na 2,25% i na tom nivou zadržala stopu sve do kraja godine.

Samo su cene odeće i obuće beležile pad (-1,1% godišnje), dok su sve ostale kategorije proizvoda i usluga beležile umeren rast u odnosu na 2018. godinu, izuzev cena stana, vode, električne energije, gasa i drugih goriva, koje su porasle za 2,9% godišnje usled već pomenutog povećanja cena kao i cena nameštaja, pokućstva i tekućeg održavanja stana. Pad stope nezaposlenosti još uvek se nije odrazio na značajniji rast lične potrošnje koja bi podstakla rast bazne inflacije koja je zadržala rast od samo 1,1%.

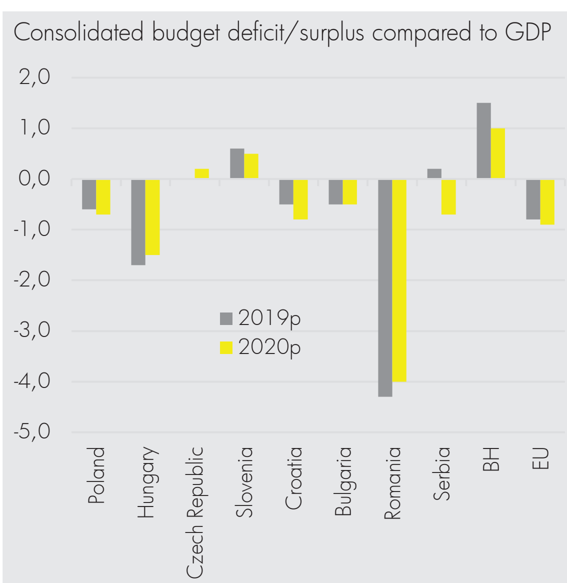
Dinar je imao trend jačanja u odnosu na evro zahvaljujući prilivu stranih direktnih investicija (2019: 3,6 milijardi evra), emitovanju hartija od vrednosti Ministarstva finansija i povećanom investicionom kreditiranju banaka. Međutim, izraženije jačanje domaće valute sprečeno je deviznim intervencijama NBS na deviznom tržištu (3,5 milijarde evra) koje su bile na najvišem nivou od 2004. godine. Kao i u 2018. godini (1,8 milijarda evra), uglavnom su bile na kupovnoj strani (3,1 milijarde evra). U odnosu na 2018. godinu, dinar je nominalno ojačao za 0,51% a razlika između minimalne (117,43) i maksimalne vrednosti (118,49) dinara iznosila je svega 1,06 dinara.



Iako je nekonsolidovani budžet u 2019. godini bio u suficitu u iznosu od 12,6 milijardi dinara, značajno se smanjio u odnosu na 2018. godinu (–60,4% g-n-g) usled nešto bržeg rasta rashoda budžeta (+10%) u odnosu na prihode (+8%). Naime, u 2018. godini završen je program

Although the non-consolidated budget in 2019 had a surplus amounting to 12.6 billion dinars, it reduced significantly compared to 2018 (minus 60.4 per cent y-o-y), due to a somewhat faster growth of budget expenditures (plus 10 per cent) compared to income (plus 8 per cent). Namely, in 2018 the savings program in the public sector was completed, and in 2019 the program of a slightly expansive fiscal policy was started with the aim of stimulating economy growth, which can be seen according to key bearers of budget expenditures growth.

Capital investments grew by 30.4 per cent, mostly due to new infrastructural projects, followed by employees' expenditures (plus 10.2 per cent) due to growth of salaries in the public sector, as well as subventions (plus 24.8 per cent), mostly to private investors. On the income side, VAT realized the highest growth. Namely, the newly collected VAT in 2019 was at the highest level since the year 2008. We suppose that VAT growth was a result of more efficient tax collection.



Even with the budget surplus, public debt was rising in 2019 (plus € 929.4 million) for the first time since savings measures were introduced in 2015. However, due to economic growth, public debt in relation to the GDP was declining to 52 per cent after 53.7 per cent in 2018. Issuing of the first eurobond denominated in euros (€ 1.5 billion), as well as issuing of benchmark debt issues in the domestic market also contributed to debt growth.

T-bills issues by the Ministry of Finance in the local market in 2019 (€ 2.7 billion) significantly exceeded the needs of debt refinancing (€ 2.2 billion). The Public Debt Authority issued "benchmark issues" of three-year and ten-year securities with the aim of qualifying these securities for JP Morgan's EMBI index in the future.

With the aim of increasing the share of dinar debt in the total public debt, issues of dinar-denominated securities made up 78 per cent of the total debt issued and their value reached € 2.1 billion. Good fiscal performances and a stable macroeconomic environment influenced the further growth in investors' trust and the yield curve moving to longer maturities.

Seven-year bills had the greatest share in the total portfolio structure and their share grew from 19 per cent in 2018 to 46 per cent in 2019, followed by three-year T-bills, which increased their share from 28 per cent to 33 per cent in 2019. Average yields on dinar-denominated securities fell to 3.69 per cent in 2019 from 4.36 per cent in 2018.

Trends in the Banking Industry

The total credit activity of the banking industry had a somewhat lower growth rate (plus 9.1 per cent), after 9.8 per cent in 2018 due to the slowing down of loans for private individuals, but this was still quite a high growth rate compared to the period before 2017. Credit growth was boosted by economy growth in 2019, mostly by investment activity growth, unemployment rate decline and low interest rates.

Corporate credits grew by 7.9 per cent after 7.1 per cent in 2018, while retail loans slowed down growth to 9.3 per cent in 2019 after 12.5 per cent in 2018. The volume of newly issued corporate credits grew in 2019 (plus € 715.5 million) compared to 2018 (plus € 602.1 million), mostly due to investment credit growth, the volume of which doubled in 2019 (plus € 956.3 million) compared to 2018 (plus € 505.4 milion).

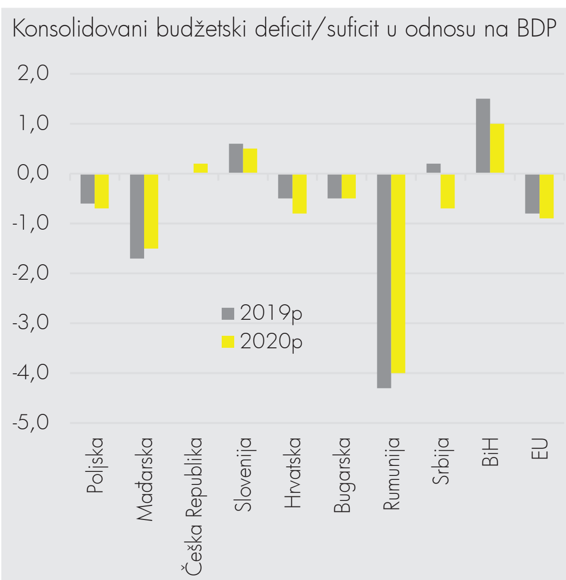
Investment lending was boosted by a strong growth in foreign direct investments and a stronger investment activity primarily of the state, but in one part also the private sector. Looking at industries, most credits were approved to hotels and restaurants, transport and warehouses, construction and trade.

Retail loans were reduced (plus € 843.1 million) compared to 2018 (plus € 972.5 million), mostly due to the slowdown of mortgage loan growth, while consumer credits continued their strong growth. Mortgage and consumer loans dominate the total credit portfolio structure approved to private individuals, with a share of 39 per cent and 46.9 per cent, respectively.

Thanks to credit growth, as well as the strategy of solving non-performing loans, the NPL rate continued falling to 4.7 per cent in the third quarter of 2019 from 5.7 per cent in 2018. The NPL rate of credits approved to corporates was also declining to 3.7 per cent in the third quarter of 2019 from 5.1 per cent in 2018, while in the case of private individuals, it realized a slight decline in the third quarter of 2019, reaching 4.1 per cent from 4.4 per cent in 2018.

štednje u javnom sektoru, da bi 2019. započeo program blago ekspanzivne fiskalne politike u cilju stimulisanja rasta ekonomije, što se vidi prema ključnim nosiocima rasta budžetskih rashoda.

Kapitalne investicije porasle su za 30,4%, ponajviše usled novih infrastrukturnih projekata, potom rashodi za zaposlene (+10,2%) usled povećanja plata u javnom sektoru i subvencije (+24,8%) najviše privatnih investitorima. Na prihodnoj strani, najveći rast ostvario je PDV. Naime, novoprikupljeni porez na dodatu vrednost u 2019. godini je na najvišem nivou od 2008. godine. Pretpostavljamo da je rast PDV-a rezultat povećanja efikasnosti naplate poreza.



I pored suficita u budžetu, javni dug zabeležio je rast u 2019. godini (+929,4 miliona evra) prvi put od uvođenja mera štednje u 2015. godini. Međutim, zbog rasta ekonomije, javni dug u odnosu na BDP bio je u padu na 52% posle 53,7% u 2018. godini. Rastu duga doprinelo je kako emitovanje prve evro obveznice denominovane u evrima (1,5 milijarda evra), tako i emitovanja referentnih emisija duga na domaćem tržištu.

Emisije B-zapisa Ministarstva finansija na domaćem tržištu tokom 2019. godine (2,7 milijarde evra) značajno su premašile potrebe refinansiranja duga (2,2 milijarde evra). Uprava za javni dug emitovala je „referentne emisije" trogodišnjih i desetogodišnjih hartija od vrednosti sa ciljem da se, u perspektivi, ove hartije od vrednosti kvalifikuju za ulazak u JP Morgan EMBI indeks.

U cilju povećanja učešća dinarskog duga u ukupnom javnom dugu, emisije dinarski denominovanih hartija od vrednosti činile su 78% ukupno emitovanog duga, a njihova vrednost dostigla je 2,1 milijarde evra. Dobre fiskalne performanse i stabilno makroekonomsko okruženje uticalo je na dalji rast poverenja investitora i pomeranja krive prinosa ka dužim ročnostima.

Najveće učešće u strukturi ukupnog portfolija imali su sedmogodišnji zapisi čije učešće je poraslo sa 19% u 2018. na 46% u 2019. godini, zatim trogodišnji B-zapisi koji su povećali učešće sa 28% na 33% u 2019 godini. Prosečni prinosi na dinarski-denominovane hartije od vrednosti pali su na 3,69% u 2019. sa 4,36% u 2018. godini.

Kretanja u bankarskoj industriji

Ukupna kreditna aktivnost bankarskog sektora imala je nešto malo nižu stopu rasta (+9,1%) posle 9,8% u 2018. godini usled usporavanja kreditiranja stanovništva, međutim i dalje je to dosta visoka stopa rasta u odnosu na period pre 2017. godine. Rast kredita bio je podstaknut rastom ekonomije u 2019. godini, ponajviše rastom investicione aktivnosti, padom stope nezaposlenosti i niskim kamatnim stopama.

Krediti privredi porasli su za 7,9% posle 7,1% u 2018. godini, dok su krediti stanovništvu usporili rast na 9,3% u 2019. posle 12,5% u 2018. godini. Volumen novoplasiranih kredita privredi porastao je tokom 2019. godine (+715,5 miliona evra) u poređenju sa 2018. godinom (+602,1 miliona evra), najviše usled rasta investicionih kredita čiji volumen je bio duplo veći u 2019. godini (+956,3 miliona evra) u odnosu na 2018. godinu (+505,4 miliona evra).

Investiciono kreditiranje bilo je podstaknuto snažnim rastom stranih direktnih investicija i pojačanom investicionom aktivnošću primarno države, ali jednim delom i privatnog sektora. Posmatrajući sektorsku strukturu, najviše kredita odobreno je sektoru hoteli i restorani, transport i skladištenje, građevinarstvo i trgovina.

Krediti stanovništvu su smanjeni (+843,1 miliona evra) u poređenju sa 2018. godinom (+972,5 miliona evra), ponajviše usled usporavanja rasta stambenih kredita, dok su potrošački krediti nastavili snažan rast. Stambeni i potrošački krediti dominiraju u ukupnom portfoliju kredita odobrenih stanovništvu, sa učešćem od 39% i 46,9% respektivno.

Zahvaljujući rastu kredita, kao i strategiji rešavanja problematičnih kredita, stopa problematičnih kredita nastavila je da pada na 4,7% u trećem kvartalu 2019. godine sa 5,7% u 2018. godini. Stopa problematičnih kredita odobrenih privredi takođe je bila u padu na 3,7% u 3. kvartalu 2019. sa 5,1% u 2018. godini, dok je u slučaju stanovništa ostvarila blagi pad u 3. kvartalu 2019. godine na 4,1% sa 4,4% u 2018. godini.

Banks' activities focused on cleaning up total assets contributed to NPL reduction. This included the write-off of 111.9 billion dinars and, simultaneously, the sale of NPLs worth 5.7 billion dinars. Coverage of NPLs by value corrections was at a very high level of 80.3 per cent in the third quarter of 2019. Also, capital adequacy is still above the regulated 12 per cent and this ratio was 23.6 per cent in September 2019 (2018: 22.3 per cent).

In 2019, banks placed their liquidity surplus into crediting corporates and private individuals, but also into repo transactions and securities of the Ministry of Finance. The loan-deposit ratio remained stable at a level of 95 per cent in 2019 (2018: 94.4 per cent), because loans and deposits had similar growth dynamics.

Total deposits slowed down growth significantly in 2019 (plus € 1.8 billion) compared to the year 2018 (plus € 2.7 billion), due to declining deposits from public companies in 2019 (minus € 840 million), after their growth of € 418.8 million in 2019. Corporate deposits continued rising in the previous year (plus € 939.8 million), after € 1,086 million in 2018. Also, private individuals' deposits marked a record growth in the previous year (plus € 1,464.8 million) after € 1,020.3 million of new deposits collected in 2018.

The privatization process of Komercijalna banka was completed at the end of 2019 and Nova Ljubljanska Banka (NLB) was ranked as the highest bidder as regards price per share. As concerns the consolidation of the banking industry, OTP bank merged with Societe Generale and changed its name to OTP banka Srbija.

The government solved the long-standing problem with mortgage loans indexed in Swiss francs by adopting a special Law on the Conversion of Loans in Swiss Francs, according to which the remainder of the debt as per these mortgage loans should be converted into euros, and the converted amount is then reduced by 38 per cent, and the interest rate is limited to 3.4 per cent plus three-month or six-month EURIBOR. The government will bear 15 per cent of the cost of loan principal conversion.

The profitability of the domestic banking industry measured by capital yield was somewhat lower in the period January-June 2019 (9.9 per cent), compared to the same period of the year before (10.6 per cent), because the profit level remained the same, while capital grew significantly compared to 2018. Having in mind the short period of profitability examination, we expect a greater growth of interest income due to growth in credit activity for the whole of 2019. In the first six months of 2019, net profit declined by 5.5 per cent thanks to expenditure growth of valuating financial instruments.

Smanjenju problematičnih kredita doprinela je aktivnost banaka na čišćenju bilansne aktive tokom koje je otpisano 111,9 milijardi dinara i istovremeno prodato problematičnih potraživanja u vrednosti od 5,7 milijardi dinara. Pokrivenost problematičnih kredita ispravkama vrednosti bila je na izuzetno visokom nivou i iznosila je 80,3% u 3. kvartalu 2019. godine. Takođe, adekvatnost kapitala je i dalje dosta iznad propisanih 12%, a visina ovog racija u septembru 2019. godine iznosila je 23,6% (2018: 22,3%).

Tokom 2019. godine, banke su viškove likvidnosti plasirale u kreditiranje privrede i stanovništva, ali i u repo transakcije i hartije od vrednosti Ministarstva finansija. Stopa pokrivenosti kredita depozitima ostala je na stabilnom nivou od 95% u 2019. (2018: 94,4%), jer su krediti i depoziti rasli sličnom dinamikom.

Ukupni depoziti značajno su usporili rast u 2019. godini (+1,8 milijardi evra) u odnosu na 2018. godini (+2,7 milijardi evra), usled pada depozita javnih preduzeća u 2019. godini (–840 miliona evra) posle njihovog rasta od 418,8 miliona evra u 2019. godini. Depoziti privrede nastavili su da rastu u prethodnoj godini (+939,8 miliona evra) posle 1.086 miliona evra u 2018. godini. Takođe, depoziti stanovništva zabeležili su rekordan rast u prethodnoj godini (+1.464,8 miliona evra) posle 1.020,3 milion evra prikupljenih novih depozita u 2018. godini.

Proces privatizacije Komercijalne banke završen je krajem 2019. godine a Nova ljubljanska banka (NLB) rangirana je kao najbolji ponuđač u pogledu visine cene po akciji. Što se tiče konsolidacije bankarskog sektora, OTP banka se spojila sa Societe Generale i promenila ime u OTP banka Srbija.

Dugogodišnji problem sa stambenim kreditima indeksiranim u švajcarskim francima, Vlada je rešila usvajanjem specijalnog Zakona o konverziji kredita u švajcarskim francima, po kome se ostatak duga po ovim stambenim kreditima konvertuje u evre, a da se konvertovan iznos umanji za 38%, kao i da se kamatna stopa ograniči na 3,4% plus tromesečni ili šestomesečni EURIBOR. Vlada će snositi 15% troškova konverzije glavnice.

Profitabilnost domaće bankarske industrije merena prinosom na kapital bila je nešto niža u periodu januar–jun 2019. godine (9,9%) u poređenju sa istim periodom prethodne godine (10,6%), jer je nivo profita ostao isti, dok je kapital značajno porastao u odnosu na 2018. godinu. S obzirom da je kratak period posmatranja profitabilnosti, očekujemo veći rast prihoda od kamate usled rasta kreditne aktivnosti za celu 2019. godinu. U prvih šest meseci 2019. godine, neto profit pao je za 5,5% zahvaljujući rastu rashoda vrednovanja finansijskih instrumenata.

Social Responsibility

Raiffeisen banka is committed to promoting a continuing practice of socially responsible behavior as an important indicator of professionalism.

The bank's endeavours to offer its support in the form of financial aid, as well as voluntary activities of its employees, to the most vulnerable or the weakest parts of the community, such as children, the sick, or individuals with special needs, etc. The bank's corporate social responsibility activities also include a responsible attitude towards its employees, which the bank shows in nurturing and developing their talents and knowledge, but also in listening to their needs and taking into account the issue of equality. Also, the bank nurtures the principle of loyalty to the market where it does business, and implements good business practices and a proper attitude towards its competitors. Last, but not least, since the very beginning the bank has been fostering a responsible attitude to the natural environment where it belongs and operates, through a range of measures relating to saving energy and natural resources.

Socially responsible behaviour of the bank includes activities through two humanitarian funds: "Budimir Boško Kostić" (founded in memory of the first Chairman of Raiffeisen banka) and "H. Stepic CEE Charity" (founded by the Chairman of Raiffeisen Bank International, dr Herbert Stepic).

In the course of 2019, the "H. Stepic CEE Charity", cooperating with Raiffeisen banka in Serbia, continued to offer financial support to projects realized in our country. They included support for Day Care Centers for children who live and/or work in the streets of Belgrade and Novi Sad, and at the end of the year this support was extended to the third largest city in Serbia, Niš.

In the past year, traditional projects were continued where the bank's employees are voluntary blood donors, and their number exceeded 160 in 2018.

Since support for children is a key part of the bank's charity work, the bank marked a suitable volunteering project of its employees marking the International Children's Day (June 1st) in 2019 as well, when the primary school "Boško Palkovljević Pinki" in Stara Pazova was cleaned up.

Continuing the very successful voluntary activities realized during the previous ten years, employees of Raiffeisen banka organized for the eleventh time the collecting of New Year's presents for children coming from vulnerable social groups, children with developmental problems, disabled children or children without parental care who are living in institutional homes. Several hundred presents were collected, bringing joy to children in as many as eleven institutions in seven cities across Serbia!

Apart from helping this vulnerable social group, the bank has traditionally been supporting sports and culture, as important pillars of any society. Through support offered to sports clubs and associations, as well as esteemed cultural institutions and events, the bank wishes to promote true values that strengthen and enrich individuals, and consequently the society as a whole.

In addition to its philanthropic and socially responsible activities, the bank also recognizes the importance of responsible human resources management and strives to provide a working environment where employees will be satisfied and work in positions corresponding to their knowledge and skills, with the possibility of further professional and personal development.

Apart from its humanitarian activities, the bank recognizes the importance of responsible human resources management and so tries to provide a working environment where employees will be satisfied and work in positions that correspond to their skills and knowledge, with the possibility of further professional and personal development.

The ecological dimension relates to efforts the bank is investing in order to create a balance between the need for economic growth on the one hand, and maintaining a healthy environment on the other. Special attention is focused on saving energy, paper and electronic waste recycling, further, in designing installation systems of the bank's new headquarters, the principles of saving energy by applying modern energy recuperation systems and optimization of technical parameters for ventilation and cooling were taken into account.

The issue of business ethics is certainly one of the most important, so the bank strives to make the following its basic business ethics: transparency and work ethics, quality service and a comprehensive product offer, constant client care and responsible marketing, as well as respecting the current legislative framework and competition integrity.

Društvena odgovornost

Raiffeisen banka je posvećena promovisanju kontinuirane prakse društveno odgovornog ponašanja, kao veoma važnog segmenta poslovanja.

Banka teži da se podrška koju pruža u formi finansijske pomoći, ali i volonterskog rada zaposlenih, uvek odnosi na najugroženije ili najslabije delove zajednice, kao što su to deca i pojedinci sa posebnim potrebama, deca bez roditeljskog staranja… U društveno odgovorno ponašanje banke takođe treba uvrstiti i odgovoran odnos prema zaposlenima, koji banka pokazuje kroz negovanje i razvijanje njihovih talenata i znanja, ali i slušanje njihovih potreba i brigu o ravnopravnosti i jednakosti. Takođe, banka se strogo pridržava principa lojalnosti na tržištu na kome posluje, te brine o dobroj poslovnoj praksi i korektnom odnosu prema konkurenciji. Na kraju, ali svakako ne najmanje važno, banka od samog početka poslovanja u Srbiji odgovorno pristupa i prirodnom okruženju u kome posluje, kroz niz mera koje se odnose na uštedu energije i prirodnih resursa.

U društveno odgovorno ponašanje treba uvrstiti i delovanje banke preko dve humanitarne fondacije: „Budimir Boško Kostić“ (osnovane u znak sećanja na prvog direktora banke) i „H. Stepic CEE Charity“ (čiji osnivač je bivši predsednik Raiffeisen Bank International-a, dr Herbert Stepic).

U toku 2019. godine, humanitarna fondacija „H. Stepic CEE Charity“, uz podršku Raiffeisen banke u Srbiji, nastavila je da pruža finansijsku pomoć projektima koji se realizuju u našoj zemlji. U okviru njih podržan je rad Dnevnih centara za decu koja žive i/ili rade na ulici u Beogradu i Novom Sadu, a krajem godine ova podrška se proširila i na treći najveći grad, Niš.

I protekle godine nastavljene su tradicionalne akcije u okviru kojih zaposleni banke dobrovoljno daju krv, a broj davalaca je u 2019. godini premašio 160.

Kako pomoć deci čini ključni deo strategije humanitarnog delovanja banke, banka je i u 2019. obeležila Međunarodni dan dece volonterskom akcijom zaposlenih, u okviru koje je uređena osnovna škola „Boško Palkovljević Pinki“ u Staroj Pazovi.

Nastavljajući veoma uspešne volonterske akcije realizovane tokom prethodnih deset godina, zaposleni Raiffeisen banke su krajem godine organizovali jedanaestu akciju prikupljanja novogodišnjih paketića za decu iz ugroženih socijalnih grupa, decu sa smetnjama u razvoju ili decu u domovima bez roditeljskog staranja. Prikupljeno je više stotina paketića koji su obradovali decu u čak 11 institucija koje zbrinjavaju ovu decu u sedam gradova širom Srbije!

Uz pomoć ovoj ranjivoj društvenoj grupi, banka tradicionalno pruža podršku i sportu i kulturi, kao važnim stubovima svakog društva. Kroz pomoć sportskim klubovima i savezima, te istaknutim kulturnim institucijama i događajima, banka želi da promoviše prave vrednosti koje jačaju i oplemenjuju pojedince, a time i celokupno društvo.

Pored filantropskog i društveno odgovornog delovanja, banka prepoznaje i značaj odgovornog upravljanja ljudskim resursima, te se trudi da obezbedi radno okruženje u kome će zaposleni biti zadovoljni i raditi na pozicijama koje odgovaraju njihovim znanjima i veštinama, uz mogućnost daljeg profesionalnog i ličnog razvoja.

Pored humanitarnih aktivnosti koje sprovodi, banka prepoznaje važnost odgovornog upravljanja ljudskim resursima i trudi se da obezbedi radno okruženje u kojem će zaposleni biti zadovoljni i raditi na pozicijama koje odgovaraju njihovim veštinama i znanju, uz mogućnost daljeg profesionalnog i ličnog napredovanja.

Ekološka dimenzija poslovanja odnosi se na napore koje banka ulaže kako bi uspostavila ravnotežu između potrebe za ekonomskim rastom sa jedne strane, i očuvanja zdravog okruženja sa druge. Vodi se računa o uštedi energije, reciklaži papira i elektronskog otpada, a instalacioni sistemi upravne zgrade banke funkcionišu po principima uštede energije primenom savremenih sistema rekuperacije energije i optimizacije tehničkih parametara za ventilaciju i hlađenje.

Pitanje poslovne etike je svakako jedno od najvažnijih, tako da banka teži da osnovni principi njenog poslovanja budu transparentnost i etičnost u radu, kvalitetna usluga i raznovrsna ponuda proizvoda, konstantna briga o klijentima i odgovoran marketing, uz poštovanje važeće regulative i integriteta konkurencije.

Corporate Banking

In 2019, Corporate Banking recorded a very successful business year, with growing assets and positive performance in all major product lines contributing to solid bottom-line profitability. In line with growing Serbian economy and more dynamic corporate market and FDI growth, the corporate segment grew its asset portfolio (plus 18.3 per cent y-o-y) and outperformed the overall market (plus 12.6 per cent y-o-y), particularly due to excellent new client acquisition.

At the same time, client margins remained stable despite the very competitive market environment characterized by low interest rates. Related to risk parameters, prudent risk approach applied in the past years, continued to result in excellent portfolio quality (probability of default of 1.7 per cent), as well as strong reduction of non-performing loans (currently 2 per cent).

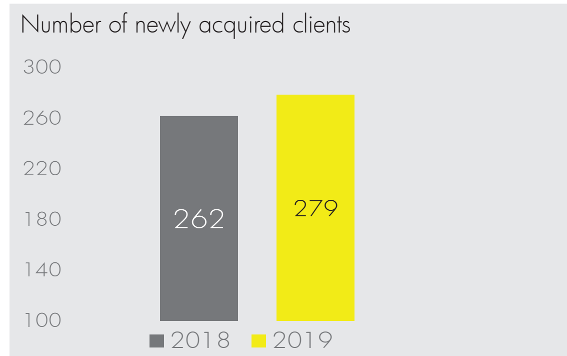
The corporate segment maintained its successful strategy and primary client focus – maintaining the long-term partnerships with its primary credit portfolio clients and focus on well-structured deals, as well as supporting healthy business activities of its clients by continually providing highest quality services, innovations and digital initiatives.

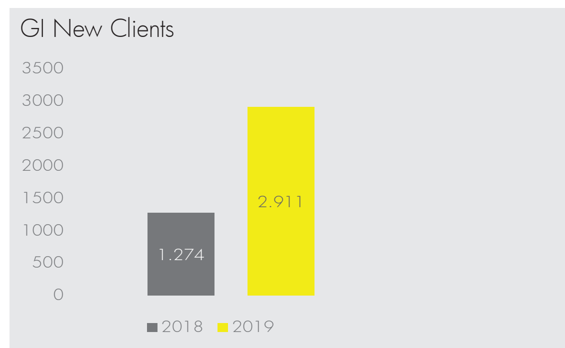
Raiffeisen banka's leading position in the multinational segment with a strongly developed multinational desk, by servicing the most important and largest foreign investors in Serbia, was particularly confirmed in 2019, where the bank participated in some of the most important Serbian infrastructural projects such as the Turkish Stream pipeline, as well as financed some of the major acquisitions in the local market by big multinational companies.

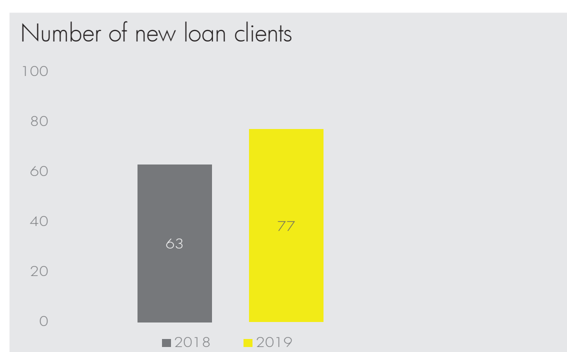
Development of Key Products and Innovations

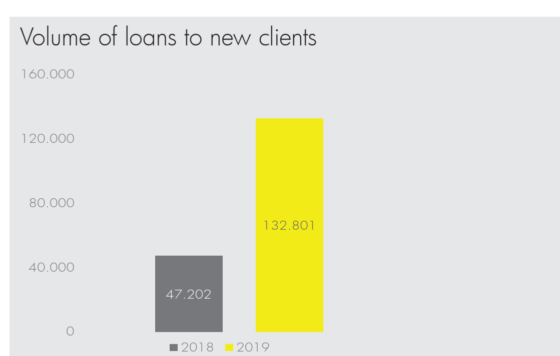
Throughout 2019, the main achievements of the Corporate Banking segment include:

- Credit portfolio growth in both Large (plus 20.4 per cent) and Mid-Market (plus 15.7 per cent) segments in line with budget/ RWA targets. Exceptional performance achieved in new customer acquisition with € 132 million new loans coming from purely new customers and over 270 new corporate customers to the bank.









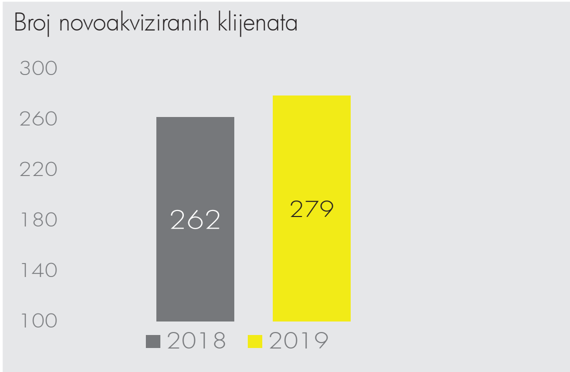
Poslovanje sa privredom

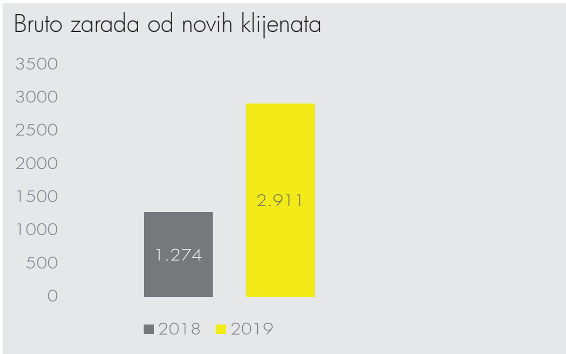
Sektor za poslovanje sa privredom zabeležio je uspešnu poslovnu 2019. godinu, sa rastom aktive i pozitivnim performansama u svim važnijim segmentima proizvoda, doprinoseći dobrom konačnom poslovnom rezultatu. U skladu sa rastućom ekonomijom Srbije i dinamičnijim privrednim tržištem i rastom stranih direktnih investicija, segment za poslovanje sa privredom uvećao je svoj portfolio aktive (+18.3% g-n-g) i pretekao ukupno tržište (+12.6% g-n-g) posebno kao rezultat odlične akvizicije novih klijenata.

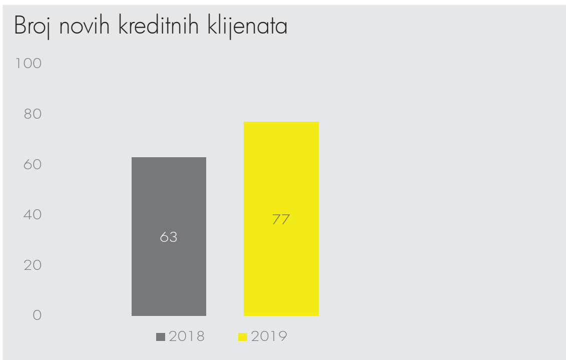
U isto vreme, margine klijenata ostale su stabilne uprkos veoma konkurentnom tržišnom okruženju koje karakterišu niske kamatne stope. Što se tiče parametara rizika, strog pristup riziku primenjen tokom proteklih godina i dalje kao rezultat daje odličan kvalitet portfolija (verovatnoća neizvršenja obaveza 1,7%), kao i veliko umanjenje loših kredita (trenutno 2%).

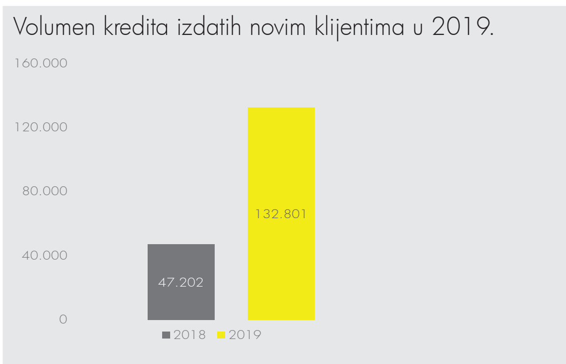
Segment za poslovanje sa privredom nastavio je svoju uspešnu strategiju i usmerenje na primarne klijente – održavanjem dugoročnih partnerstava sa klijentima iz svog primarnog kreditnog portfolija, usmerenjem na dobro strukturirane poslove, kao i obezbeđivanjem podrške zdravim poslovnim aktivnostima svojih klijenata stalnim pružanjem usluga najvišeg kvaliteta, inovacija i digitalnih inicijativa.

Vodeća pozicija banke u multinacionalnom segmentu sa veoma razvijenim multinacionalnim deskom koji opslužuje najvažnije i najveće strane investitore u Srbiji posebno je potvrđen 2019. godine, kada je Raiffeisen banka učestvovala u nekim od najvažnijih infrastrukturnih projekata u Srbiji, kao što su Turski tok, takođe je finansirala i neke od glavnih akvizicija velikih multinacionalnih kompanija na lokalnom tržištu.









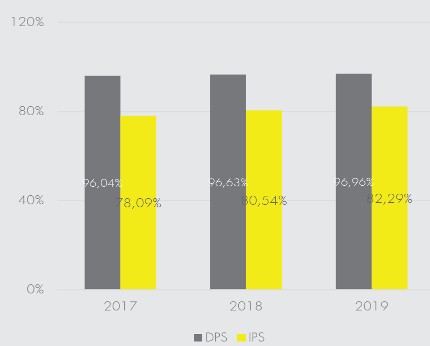
Razvoj ključnih proizvoda i inovacije

Tokom 2019. godine, najvažnija dostignuća segmenta za poslovanje sa privredom uključuju:

- Rast kreditnih portfolija u segmentima kako velikih (+20.4%), tako i srednjih kompanija (+15.7%) u skladu sa budžetom/ ciljevima rizikom-ponderisane aktive. Izuzetni rezultati ostvareni su u akviziciji novih klijenata, sa 132 miliona evra novih kredita isključivo od novih klijenata i preko 270 novih klijenata iz privrede.

- Development of new digital sales channels and providing a full scale of new innovations and services for its customers, such as:
  - Enhancement of RaiffeisenOnLine electronic platform with new products, features, tailor-made solutions, new developments and innovations in cash management services, sending the list of employees' salaries and credit repayments, online FX trading, etc.)
  - New guarantee and credit platform developed, enabling clients to view all approved facilities, their free limits and sending requests for usage of credit or L/G from those facilities.
  - New Factoring Supply Chain solution is in the final phase of development and expected to go live in Q1/2020.
  - New KYC info portal (digital platform) is being developed and is expected to go live in 2020.

Electronic payments (share in total payments in %)



- Pursuing the concept of systematic and proactive sales management approach for planning and execution monitoring, including:
  - Account planning/ joint strategy development towards large GCC groups, as well as systematic sales campaigns/ pricing actions;
  - Advanced data analytics/ data-driven approach for customer acquisition and profitability optimization of existing customers, creation of Corporate Datamart and implementation of Microsoft Power BI;
  - Automation of existing reporting and reallocation of these resources to data analytics

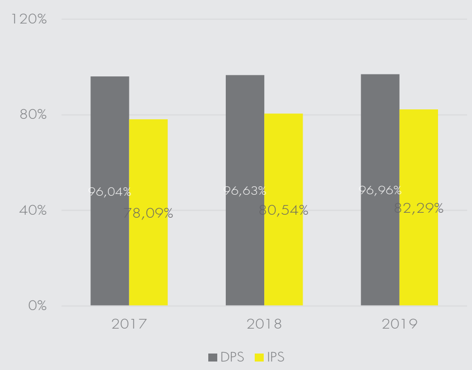
- Addressing cross-border potential, grow cross-border business with large multinational corporates which are active in more countries, with special focus on tailor-made products and services (e.g. escrow accounts, syndication deals, project finance, etc). Using group RBI tools, such as: Aqui tool, Group-wide sales competition, cross-sell workshops, account manager rotations.

Client Relationship Quality

High trust and stability of cooperation between the bank and its corporate clients were the key factor in overcoming challenges caused by the still unstable and complex market environment. By its committed approach, based primarily on quality, Raiffeisen banka will remain a reliable long-term partner to its clients in the future as well.

- Razvoj novih digitalnih kanala prodaje i obezbeđivanje širokog raspona novih inovacija i usluga za svoje klijente, kao što su:
  - Poboljšanje elektronske platforme RaiffeisenOnLine novim proizvodima i karakteristikama, posebno prilagođenim rešenjima, novim razvoj i inovacije u uslugama upravljanja gotovinom, slanje spiskova plata zaposlenih i otplata kredita, trgovina devizama preko interneta, itd)
  - Razvoj nove platforme za garancije i kredite, omogućavanje klijentima da imaju pregled svih odobrenih sredstava, slobodnih limita i slanje zahteva za korišćenje kredita ili garancija iz tih sredstava.
  - Novo rešenje „Factoring Supply Chain" je u poslednjoj fazi razvoja, očekuje se puštanje u prvom kvartalu 2020. godine.
  - Razvija se novi info portal – digitalna platforma „KYC" i očekuje se objavljivanje 2020. godine.

Elektronska plaćanja (udeo u ukupnim plaćanjima u %)



- Primenjivanje koncepta sistematskog i proaktivnog pristupa upravljanja prodajom za planiranje i praćenje izvršavanja, uključujući:
  - Razvoj planiranja zajedničke strategije prema velikim grupacijama povezanih lica, kao i sistematske prodajne kampanje i cenovne akcije;
  - Napredna analitika podataka, pristup usmeren na podatke za akviziciju klijenata i optimizaciju profitabilnosti za postojeće klijente, kreiranje „Corporate Datamart" i implementacija „Microsoft Power BI" alata za analitiku podataka;
  - Automatizacija postojećeg izveštavanja i realokacija ovih resursa na analitiku podataka.

- Fokus na potencijal unakrsne prodaje, povećanje unakrsnog poslovanja sa velikim multinacionalnim kompanijama koje su aktivne u više zemalja, sa posebnim fokusom na posebno prilagođene proizvode i usluge (npr. račune za posebne namene, sindiciranje, projektno finansiranje, itd). Korišćenje alata RBI grupacije, kao što su: „Aqui" alat, prodajno takmičenje na nivou grupacije, radionice na temu unakrsne prodaje, rotacije saradnika za poslovanje sa privredom.

Kvalitet odnosa sa klijentima

Izraženo poverenje i stabilnost saradnje između banke i njenih klijenata iz privrede bili su ključni faktor u prevazilaženju izazova izazvanih još uvek nestabilnim i složenim tržišnim okruženjem. Svojim posvećenim pristupom, zasnovanim prvenstveno na kvalitetu, Raiffeisen banka će i u budućnosti ostati pouzdan dugoročni partner svojim klijentima.

Retail Banking

In the course of 2019, Retail Banking continued the positive trend established in the previous years. The focus in 2019 was the further development of the bank's digital offer, including further activities on improving the operation of artificial intelligence in the process of offering services to clients, as well as on the further transformation of the branch office network following the most contemporary standards and introducing 24-hour self-service areas with multifunctional devices.

Apart from the above-said, the bank continued introducing innovative loan products, especially "iKeš", the first model of its kind in the market and in the region, which enables the loan to be fully realized without visiting the bank. All these activities were followed by continuous work on improving the bank's service quality. The results of these efforts are visible in the fact that the number of clients in 2019 grew by 3.3 per cent compared to the year before, despite strong competitiveness in the banking industry.

With a market share of approx. 8.1 per cent in the segment of cash loans, Raiffeisen banka takes up one of the leading positions in the market. In the course of 2019, the growth of newly issued loans exceeded 23 per cent compared to the year before. In the segment of loan products, most activities were focused on expanding the offer of innovative products, process optimization for greater customer satisfaction, as well as finding the optimal price level and product combination.

In the deposit products segment, the fact was confirmed that safety and tradition were the main factors when choosing a savings bank, which is reflected in the fact that the level of deposits from natural persons grew significantly and that the bank reached a market share of 10.30 per cent at the end of 2019.

Raiffeisen banka continued growing its card portfolio in 2019, both in the segment of issuing, as well as in the segment of payment cards acceptance. The annual growth of payment cards at the end of 2019 was 29 per cent compared to the end of 2018.

In the course of 2019, the bank continued offering various benefits to its clients, such as approving and issuing a credit card in the amount of RSD 60,000 in only 15 minutes, with just one visit to the bank needed, on the other hand, it enables monthly installment payments without interest. Installment payments without interest are also possible for all payments of goods and services in Serbia and abroad, as well as online payments. Depending on the amount, payments can be divided into three, six or twelve installments.

As a result of the strong focus on the credit card segment, the bank realized a market share of 21 per cent for the amount in usage.

In the course of 2019, the bank offered its digital service aimed at all users of Visa debit and credit cards – the mPay application, which enables contactless payments through mobile phones. The application is available for smart mobile phone users who have devices that support NFC technology and at least Android 4.4 operating system. A new, upgraded RaiPay application is in the final stages of development. It will include users of MasterCard payment cards and will be on offer beginning 2020.

As concerns payment cards acceptance, the number of POS terminals in the acceptance network is growing continuously. At the end of 2019, the number of POS terminals of Raiffeisen banka was 4,838. Also, the bank continues the expansion of the merchant network where payment cards are accepted through web shops, as well as the offer of an innovative service called "turn-key", where clients are offered a complete solution – web shop and portal for acceptance of payment cards.

Premium Banking

In the course of 2019, the Premium Banking service focused on strengthening and expanding cooperation with existing clients through a high service level, as well as the acquisition of new clients. A client base growth of 14 per cent was realized.

In 2019, an attractive and competitive offer of loan products, especially mortgage loans, resulted in an increase of new volumes by 17 per cent compared to 2018, which in the end resulted in a loan portfolio increase by 16 per cent.

Constant efforts invested to increase market awareness on alternative modes of savings and investment options resulted in a growth of sales of investment fund units. Total assets of Premium clients under management in funds grew by 17 per cent compared to the year before.

Continuous work on the affirmation and promotion of internet banking and the mobile application of Raiffeisen banka resulted in an extremely high self-service rate with Premium clients, which amounted to 87 per cent at the end of 2019.

The Premium Direct service, which gives clients the possibility to communicate with their personal bankers by video technology, was used by 5 per cent of Premium clients at the end of 2019. Clients who use it rated the service very well. A total of 96 percent of clients say the video meeting was an excellent replacement for a meeting in the branch office and highly value the possibility to perform their banking activities without the need to visit the bank.

Poslovanje sa stanovništvom

Poslovanje sa stanovništvom nastavilo je i u 2019. godini pozitivan trend iz prethodnih godina. Fokus u 2019. godini bio je na daljem razvoju digitalne ponude banke, uključujući i dalji rad na unapređenju rada veštačke inteligencije u procesu pružanja servisa klijentima, kao i na daljoj transformaciji mreže ekspozitura, po najsavremenijim standardima, uz uvođenje 24-časovnih samouslužnih zona sa višenamenskim uređajima.

Pored navedenog, nastavljen je rad na uvođenju inovativnih kreditnih proizvoda, pri čemu se posebno izdvaja „iKeš", prvi model te vrste na tržištu i u regionu, koji omogućava da se kredit u potpunosti realizuje bez odlaska u banku. Sve ove aktivnosti praćene su kontinuiranim radom na unapređenju kvaliteta usluga banke. Rezultati ovih napora vidljivi su u činjenici da je broj klijenata u 2019. porastao za 3.3% u odnosu na prethodnu godinu, uprkos snažnoj konkurenciji u bankarskom sektoru.

Raiffeisen banka, sa tržišnim učešćem od oko 8,1% u segmentu gotovinskih kredita, zauzima jednu od vodećih pozicija na tržištu. Tokom 2019. godine, rast novih plasmana bio je preko 23% u odnosu na predhodnu godinu. U domenu kreditnih proizvoda, većina aktivnosti bila je usmerena na proširenje ponude inovativnih proizvoda, optimizaciju procesa u cilju većeg zadovoljstva klijenata, kao i pronalaženje optimalnog nivoa cena i kombinacije proizvoda.

U segmentu depozitnih proizvoda, potvrđena je činjenica da su sigurnost i tradicija glavni faktori prilikom izbora banke za štednju, što se ogleda u tome da je nivo depozita fizičkih lica značajno porastao i da je banka dostigla tržišno učešće od 10.30% na kraju 2019.

Raiffeisen banka nastavlja sa daljim rastom kartičnog portfolija i u 2019. godini, kako u segmentu izdavanja, tako i u segmentu prihvata platnih kartica. Godišnji rast broja platnih kartica na kraju 2019. godine bio je 29% u poređenju sa krajem 2018. godine.

Banka je tokom 2019. nastavila sa ponudom pogodnosti klijentima, kao što je odobrenje i izdavanje kreditne kartice u iznosu od 60.000 dinara u roku od 15 minuta, tokom samo jedne posete ekspozituri banke, i sa druge strane, omogućavanjem plaćanja na mesečne rata bez kamate. Plaćanje na rate bez kamate omogućeno je za sva plaćanja robe i usluga u zemlji i inostranstvu, kao i za plaćanje na internetu. U zavisnosti od visine iznosa, plaćanje se može podeliti na 3, 6 ili 12 rata.

Kao rezultat snažnog fokusa na segment kreditnih kartica, banka je ostvarila tržišno učešće na iznos u korišćenju od 21%.

Tokom 2019. godine banka je imala u ponudi digitalni servis namenjen svim korisnicima VISA debitnih i kreditnih kartica – mPay aplikaciju, koja omogućava beskontaktno plaćanje putem mobilnih telefona. Aplikacija je dostupna za korisnike pametnih mobilnih telefona, koji imaju podržanu NFC tehnologiju i minimalno Android operativni sistem 4.4. U završnoj fazi pripreme je nova, naprednija, RaiPay aplikacija koja će obuhvatiti i korisnike Mastercard platnih kartica i koja će biti u ponudi početkom 2020.

Sa aspekta prihvata platnih kartica, broj POS terminala u akceptantskoj mreži kontinuirano raste. Na kraju 2019. godine, broj POS terminala Raiffeisen banke bio je 4.838. Takođe, banka nastavlja ekspanziju mreže trgovaca koji prihvataju platne kartice preko veb prodavnica, kao i ponudu inovativne usluge nazvane "ključ u ruke", gde svojim klijentima omogućava već gotovo kompletno rešenje – veb prodavnica i portal za prihvat plaćanja platnim karticama.

Premium bankarstvo

Usluga Premium bankarstva je i u 2019. godini u svom fokusu imala jačanje i proširenje saradnje sa postojećim klijentima kroz visok kvalitet usluge kao i akviziciju novih klijenata. Ostvaren je rast klijentske baze od 14%.

Tokom 2019. godine, atraktivna i konkurentna ponuda kreditnih proizvoda, posebno stambenih kredita, dovela je do povećanja novih volumena za 17% u odnosu na 2018. godinu, što je kao krajnji rezultat imalo rast kreditnog portfolia od 16%.

Stalni napori da se uveća svest tržišta o alternativnim vrstama štednje i mogućnostima investiranja i ove godine rezultirali su rastom prodaje investicionih fondova. Ukupna sredstva Premium klijenata pod upravljanjem u okviru fondova porasla su 17% u odnosu na prethodnu godinu.

Kontinuiran rad na afirmaciji i promociji internet bankarstva i mobilne aplikacije Raiffeisen banke doveo je do izuzetno visoke stope samousluživanja kod Premium klijenata koja na kraju 2019. godine iznosi 87%.

Premium Direct servis koji daje klijentima mogućnost da sa svojim ličnim bankarima komuniciraju putem video tehnologije na kraju 2019. godine koristi 5% Premium klijenata. Servis je dobio izuzetno dobre ocene od strane klijenata koji ga koriste. Čak 96% klijenata ističe da im je video sastanak odlična zamena za sastanak u filijali i izuzetno vrednuju mogućnost da obavljaju bankarske poslove bez odlaska u banku.

In the course of the year, there was intensive development of the Private Banking service which is starting in the first quarter of 2020 and which will enrich the segment of doing business with private individuals.

Small Enterprises and Entrepreneurs

The small enterprises and entrepreneurs segment realized another very successful business year by generating a two-digit growth of all main business parameters. Thanks to the cooperation with EIF guarantee funds, but also to advertising campaigns realized and a very organized and extremely dedicated sales network, the loan volumes increased by 14.8 per cent. At the same time, the number of clients grew by 16.2 per cent and deposits grew by 29.2 per cent. All this resulted in an increase of total revenue by 17.3 per cent.

The sales concept implemented in the micro segment confirms its good direction, having in mind that a significant increase of all the most important business parameters was realized compared to the previous year, namely: the number of new clients grew by 17.2 per cent, the loan portfolio grew by 22 per cent and clients' deposits grew by 42 per cent. All this resulted in a growth of total income in the micro segment by 24.4 per cent compared to the year before.

The segment of small business and entrepreneurs continues to improve its product and service quality by focusing on digitalization, which proved the only correct strategy, with the aim of further growth in the number of active clients through introducing new sales channels and new client segments.

Innovations and Digital Banking

In the course of 2019, Raiffeisen banka made a significant impact as concerns innovations and digital banking, which was proven by the award "Best Digital Bank" issued to Raiffeisen banka in Serbia for the second time in a row by the renowned magazine "Global Finance". Continued digitalization of products and services in accordance with clients' modern needs contributed to achieving the best results so far in providing digital services and enabling digital sales. The number of mobile banking clients grew by 43 per cent compared to the previous year. The cash loan digital sales share reached 18 per cent, which is a remarkable growth of 124 per cent compared to the year 2018.

At the start of 2019, upgraded versions of mobile and internet banking applications were published, enabling clients easy and reliable everyday banking. User experience and the range of functionalities across the channels and platforms have been harmonized and created in accordance with the global trends in designing a user interface. The process of activation and registration of digital services has been fully automatized and simplified so that it does not require additional devices of a unique access code in printed format (PIN).

Users are given the possibility to monitor account changes and realize the most important activities immediately after login. The payment process has been additionally simplified by easier entry of already stored beneficiaries and the option of initiating instant payments. Users also have the option of a new reliable two-way communication mode with the bank from the same application. All this resulted in the application being rated the best on Google Play Store in December, compared to the relevant competitors.

With the aim of increasing ditigal sales, the bank enabled selected primary users to obtain a cash loan fully online in several steps, where the whole procedure lasts only eight minutes. This is possible thanks to the full automatization of the application process and loan approval with introducing an advanced electronic signature which is realized only by entering an SMS code by the user.

Thanks to the new regulations introduced by the National Bank of Serbia that enable remote client identification by using video calls and creating a great number of technological innovations for the first time in the local market, Raiffeisen banka introduced the possibility of realizing a cash loan for new clients fully online, named "iKeš". This loan makes it possible for users to receive a reply within eight minutes and to realize the loan within 30 minutes.

The complete process requires minimal documents, which are only in digital format in the form of the client's monthly salary account statements. Apart from the cash loan, clients also open a current account and create their credentials to access digital banking. The first impressions are very positive and based on clients' feedback, they would realize their next cash loan in the same way, without visiting the bank's branch office.

With the aim of more efficient digital transformation process and an even greater focus on improving user experience, which is in accordance to the long-term vision of the bank, the way in which innovative products and services are discovered and created has transformed into a new, agile organization. Within the organizational change implemented in November, two "tribes" were formed addressing the needs of users in the segments of private individuals as well as small enterprises and enterpreneurs. Within these organizational units, small multidisciplinary agile teams were formed which are collocated and have the possibility to meet the needs of users and the organization in short and frequent iterations. This way, a faster cycle of creating new and improving existing products and services, while simultaneously using the expertise of all relevant parts of the organization.

Tokom godine intenzivno se radilo na razvoju usluge Private Banking koja startuje u prvom kvartalu 2020. godine i koja će upotpuniti segment poslovanja sa klijentima fizičkim licima.

Mala preduzeća i preduzetnici

Segment poslovanja sa malim preduzećima i preduzetnicima imao je još jednu u nizu vrlo uspešnu poslovnu godinu generišući dvocifreni rast svih glavnih parametara poslovanja. Zahvaljujući pre svega saradnji sa EIF garantnim fondovima, ali i organizovanim kampanjama i dobro organizovanom i vrlo posvećenom prodajnom mrežom, kreditni volumeni povećani su za 14.8%. Istovremeno, broj klijenata povećan je za 16.2%, a depoziti za 29.2%. Sve ovo rezultiralo je povećanjem ukupnih prihoda za 17.3%.

Prodajni koncept koji je implementiran u mikro segmentu i ove godine potvrđuje dobar pravac imajući u vidu da je ostvareno značajno povećanje najvažnijih parametara poslovanja u odnosu na prethodnu godinu, i to: broj novih klijenata porastao je za 17.2%, kreditni portfolio za 22% i depoziti klijenata za 42%. Sve ovo je rezultiralo rastom ukupnih prihoda u mikro segmentu za 24.4% u odnosu na prethodnu godinu.

Segment poslovanja sa malim preduzećima i preduzetnicima nastavlja sa kontinuiranim poboljšanjem kvaliteta proizvoda i usluga sa akcentom na digitalizaciju, što se pokazalo kao jedina ispravna strategija, sa ciljem daljeg povećanja broja aktivnih klijenata kroz uvođenje novih kanala prodaje i novih segmenata klijenata.

Inovacije i digitalno bankarstvo

Raiffeisen banka je u tokom 2019. godine napravila značajan iskorak kada su u pitanju inovacije i digitalno bankarstvo o čemu svedoči i nagrada eminentnog magazina „Global Finance" za „Najbolju digitalnu banku" koja je dodeljena već drugu godinu za redom Raiffeisen banci u Srbiji. Kontinuirana digitalizacija proizvoda i usluga u skladu sa modernim potrebama klijenata doprinela je ostvarenju do sada najboljih rezultata u korišćenju digitalnih usluga i digitalnoj prodaji. Broj klijenata mobilnog bankarstva porastao je za 43% u odnosu na prethodnu godinu. Udeo digitalne prodaje keš kredita dostigao je 18% što predstavlja izuzetan rast od 124% u odnosu na 2018. godinu.

Početkom 2019. u rad su puštene unapređene verzije aplikacija za mobilno i internet bankarstvo koje su klijentima omogućile jednostavno i pouzdano svakodnevno bankarstvo. Korisničko iskustvo i skup funkcionalnosti između kanala i platformi su usklađeni i krerani u skladu sa globalnim trendovima u izradi korisničkog interfejsa. Proces aktivacije i registracije digitalnih usluga je potpuno automatizovan i pojednostavljen tako da ne zahteva dodatni uređaj ili jedinstveni pristupni kod u štampanom formatu (LIB).

Korisnici imaju mogućnost da prate promene po računima i realizuju najvažnije aktivnosti odmah nakon logovanja. Proces plaćanja je dodatno pojednostavljen lakšim unosom već sačuvanih primalaca i mogućnošću iniciranja instant plaćanja. Korisnicima je na raspolaganju novi pouzdan način dvosmerne komunikacije sa bankom u okviru same aplikacije. Sve zajedno to je rezultiralo najboljoj oceni na „Google Play" pradavnici u decembru u odnosu na relevantne konkurente.

Sa ciljem povećanja digitalne prodaje, banka je izabranim primarnim korisnicima omogućila realizaciju keš kredita potpuno onlajn u nekoliko koraka gde ceo postupak traje samo osam minuta. To je moguće zahvaljujući potpunoj automatizaciji procesa apliciranja i odobrenja kredita uz uvođenje naprednog elektronskog potpisa koji se realizuje samo unosom SMS koda od strane korisnika.

Zahvaljujući novoj regulativi Narodne Banke Srbije koja omogućava udaljenu identifikaciju klijenata korišćenjem video poziva i kreiranjem brojnih tehnoloških inovacija, Raiffeisen banka je po prvi put na domaćem tržištu uvela mogućnost realizacije keš kredita za nove klijente potpuno onlajn, pod nazivom „iKeš". „iKeš" korisnicima omogućava odgovor u roku od 8 minuta a realizaciju kredita već od 30 minuta.

Kompletan proces podrazumeva minimalnu dokumentaciju koja je isključivo u digitalnom formatu u vidu mesečnih izvoda po računu klijenata na kojima primaju zaradu. Uz keš kredit, korisnici takođe otvaraju tekući račun i kreiraju svoj nalog za pristup digitalnom bankarstvu. Prvi utisci su izuzetno pozitivni i na osnovu povratnih informacija klijenata sledeći keš kredit bi realizovali na isti način, bez odlaska u poslovnicu banke.

Sa ciljem efikasnijeg procesa digitalne transformacije i sa još većim fokusom na poboljšanje korisničkog iskustva što je u skladu sa dugoročnom vizijom banke, promenjen je način na koji se otkrivaju i kreiraju inovativni proizvodi i usluge, kroz novu agilnu organizaciju. U okviru organizacione promene koja je sprovena u novembru formirana su dva „tribe"-a koja adresiraju potrebe korisnika za fizička lica i preduzetnika i mala preduzeća. U okviru tih organizacionih jedinica formirani su mali multidisciplinarni agilni timovi koji su kolocirani i imaju mogućnost da odgovore na potrebe korisnika i organizacije u kratkim i učestalim iteracijama. Na taj način obezbeđen je ubrzan ciklus kreiranja novih i unapređenja postojećih proizvoda i usluga dok se u isto vreme koristi ekspertiza i stručnost svih relevantnih delova organizacije.

Treasury and Investment Banking

The Treasury and Investment Banking Division greatly contributed to the achievement of the bank's total results and maintaining one of the leading positions in the market in 2019. The bank realized a high level of dinar and foreign currency liquidity during the whole year, as a result of professional management of the bank's assets.

Money Market, Foreign Exchange Trading and Managing the Bank's Assets and Liabilities

The National Bank of Serbia (NBS) continued the monetary policy of inflation rate targeting in 2019 as well. The NBS' Executive Board lowered the key interest rate in the course of the year three times by 25 percentage points each time, so the rate fell from 3 per cent to 2.25 per cent. The NBS' decision to correct the key interest rate as much as three times, was a result of the significantly lower inflation, as much as three times below the lower range of the targeted inflation corridor (3 per cent +/- 1.5 percentage points). Lower inflationary pressures were the result of low import prices and a stronger dinar in relation to the euro, no correction of regulated prices and a weaker sentiment in the processing sector. Towards the end of the year, inflation started rising due to the correction of electricity prices for households and it reached a level of 1.9 per cent after 2.0 per cent in 2018.

The dinar exchange rate in 2019 ranged from 118.34 dinars for the euro at the beginning of the year, to 117.59 euros at the end of the year. The dinar had a strengthening trend in relation to the euro thanks to the high inflow of foreign direct investments (2019: 3.6 billion euros), increased investment crediting of banks and issuing securities by the Ministry of Finance.

However, a more pronounced strengthening of the domestic currency was hindered by foreign currency interventions of the NBS on the foreign currency market (3.5 billion euros) and they were mostly on the purchasing side (3.1 billion euros).

The total turnover on the interbank market decreased from 11.09 billion euros in 2018 to 10.12 billion euros in 2019. The NBS intervened in the course of 2019 with 3.5 billion euros (3.100 million euros of which relate to buying, and 405 million euros relate to the sale of foreign currency).

Raiffeisen banka was among the leading banks in foreign currency trading and foreign currency banknote trading on the interbank foreign currency market. The Treasury and Investment Banking Division of Raiffeisen banka realized a market share of 17.06 per cent in trading products with corporate clients, thereby confirming its leading position in the market.

The Ministry of Finance invested efforts in the course of the previous year to boost investments into dinar bills, actively taking on debt in the local currency, with an interest rate dictated by demand at auctions and in the secondary market, where Raiffeisen banka realized a significant share in the sales of debt instruments of the Ministry of Finance with local and foreign investors.

In 2019, the Public Debt Authority issued the greatest so far "reference issue" of bonds amounting to 150 billion dinars and with seven-year maturity. At the first auction in January 2019, the yield was 4.57 per cent, while at the latest auction in November, it amounted to 2.69 per cent, which best reflects the interest shown in the course of the year. Apart from this, the Ministry of Finance was also selling the three-year benchmark bond in the amount of 100 billion dinars, where the return realized at the first auction was 3.73 per cent, while trading in the secondary market was around two per cent at the end of the year.

With the aim of managing liquidity successfully, Raiffeisen banka continued the diversification of its dinar investment portfolio by investing into debt securities of the Ministry of Finance.

Sektor sredstava i investicionog bankarstva

Sektor sredstava i investicionog bankarstva značajno je doprineo ostvarenju ukupnih rezultata banke i očuvanju pozicije među liderima na tržištu u 2019. godini. Banka je tokom cele godine imala visok nivo dinarske i devizne likvidnosti kao rezultat profesionalnog upravljanja sredstvima banke.

Tržište novca, trgovanje devizama i upravljanje aktivom i pasivom banke

Narodna banka Srbije (NBS) je i u 2019. godini nastavila sa monetarnom politikom targetiranja stope inflacije. Izvršni odbor NBS je u toku godine smanjio referentnu kamatnu stopu tri puta za po 25 procentnih poena, sa 3 % na 2,25 %. Odluka NBS da tri puta koriguje referentnu kamatnu stopu bila je rezultat značajno niske inflacije, koja je čak tri puta bila ispod donjeg ranga targetiranog inflacionog koridora (3% +/- 1,5pp). Niži inflatorni pritisci bili su rezultat niskih uvoznih cena, jakog dinara u odnosu na evro, odsustva korekcije regulisanih cena i slabijeg sentimenta u prerađivačkom sektoru. Pred kraj godine, inflacija je počela da raste usled korekcije cena električne energije za domaćinstva i dostigla nivo od 1,9% posle 2,0% u 2018. godini.

Kurs dinara se u 2019. godini kretao u rasponu, od 118,34 dinara za evro na početku godine, do 117,59 na kraju godine. Dinar je imao trend jačanja u odnosu na evro zahvaljujući visokom prilivu stranih direktnih investicija (2019: 3,6 milijarde evra), povećanom investicionom kreditiranju banaka i emitovanju hartija od vrednosti Ministarstva finansija. Međutim, izraženije jačanje domaće valute sprečeno je deviznim intervencijama NBS na deviznom tržištu (3,5 milijardi evra) i uglavnom su bile na kupovnoj strani (3,1 milijardi evra).

Ukupan promet na međubankarskom tržištu smanjen je sa 11,09 milijardi evra u 2018. godini na 10,12 milijardi evra u 2019. godini. NBS je u toku 2019. godine intervenisala sa 3,5 milijardi evra (od čega se 3,100 miliona evra odnosi na kupovinu, a 405 miliona evra na prodaju deviza).

Raiffeisen banka bila je među vodećim bankama u trgovanju devizama i efektivnim stranim novcem na međubankarskom deviznom tržištu. Sektor sredstava Raiffeisen banke ostvario je tržišno učešće od 17,06% u trgovanju sa korporativnim klijentima, čime je tradicionalno potvrdio lidersku poziciju na tržištu.

Na podsticanju investiranja u dinarske dužničke hartije u toku prošle godine napore je uložilo i Ministarstvo finansija aktivno se zadužujući u domaćoj valuti, sa kamatom koju je diktirala tražnja na aukcijama i na sekundarnom tržištu, gde je Raiffeisen banka ostvarila značajno učešće u kupoprodaji dužničkih instrumenata Ministarstva finansija sa domaćim i stranim investitorima.

U 2019. godini Uprava za javni dug emitovala je do sada najveću "referentnu emisiju" obveznica u iznosu od 150 milijardi dinara i ročnošću sedam godina. Na prvoj aukciji u januaru 2019. godine prinos je bio 4,57% dok je na poslednjoj aukciji u novembru iznosio 2,69% što najbolje govori o interesovanju koje su investitori pokazali u toku godine. Pored ove, Ministarstvo finansija prodavalo je i trogodišnju benchmark obveznicu u iznosu od 100 milijardi dinara, na kojoj je na prvoj aukciji prinos bio 3,73%, dok se krajem godine na sekundarnom tržistu trgovalo oko 2%.

U cilju uspešnog upravljanja likvidnošću, Raiffeisen banka je nastavila diversifikaciju svog dinarskog investicionog portfolija ulaganjem u dužničke hartije Ministarstva finansija.

Financial Institutions Correspondence

In the course of 2019, Raiffeisen banka continued maintaining and further developing the cooperation with international and local financial institutions, with the aim of nurturing long-term partnerships, which it considers to be of great importance for the development and success of mutual business activities.

With the support of Raiffeisen Bank International AG, as the reflection of a long and proven business tradition, the bank succeeded in being an important and trustworthy partner, as well as to contribute to the needs and holistic approach to clients' requirements.

The bank provided funds from its own sources in order to meet the financing needs of its clients, but it also enabled clients to make use of funds from APEX lines, approved by the European Investment Bank through the National Bank of Serbia.

As a result of cooperation with the European Investment fund (EIF), the bank continued supporting small and medium-sized enterprises in 2019 as well, i.e. for the second year in a row, enabling them easier access to financing through guarantee schemes of WB EDIF – "EU for Serbia – financing of SMEs" and InnovFin, financed by the EU.

In 2019, the bank became a partner of the Republic of Serbia in introducing the Entrepreneurship and Self-employment Promotion Program, aimed at startup financing.

Brokerage Operations

By issuing a new benchmark dinar bond with seven-year maturity in the amount of 150 billion dinars, the state fulfilled another precondition for its bonds to enter the "JP Morgan Government Bond Index". Due to the great interest shown by foreign investors, this issue had an impact on increasing liquidity in the market.

The trend of yield decline on state bonds was even more pronounced than in the year before. After several years, in June, the state issued bonds denominated in euros on the international market, where it achieved excellent selling terms due to great demand. At the end of the year, several buy-back auctions were organized at which the state was buying the bonds issued and so reduced its obligations for the year 2020.

The Belgrade Stock Exchange saw a growth in turnover compared to previous year by almost 50 percent, thanks to block transactions, where the state was buying shares of Komercijalna banka consolidating ownership structure before the bank was sold. The indicator of the most liquid shares, Belex 15, marked a growth of 5.25 percent, while the indicator Belex Line grew by 8.65 percent.

Custody Services

Raiffeisen banka had a successful business year which saw an increase of clients' deposits into financial instruments by 9.3 percent. The focus on improving the quality of custody services resulted as expected. The Raiffeisen Group continues to promote the markets of Central and Eastern Europe through its monthly magazine "GCC Press". The November issue of "GCC Press" was dedicated to the Serbian market.

Research

The "Raiffeisen Research" analyst network of Raiffeisen Group continued its work on improving the general understanding of economic trends in a period of significant volatilities in the global financial markets caused by geopolitical events (implementing protectionist measures in global trade) and expansive monetary policies of central banks of the USA and the European Union (reports: CEE Strategy, Financial Markets & Global Strategy, CEE Banking Report), as well as offering a more comprehensive view of local economic trends in its publications ("Short Note", "Monthly Economic Report").

By regular monitoring and a thorough analysis of key indicators, key events on the macroeconomic scene were promptly reported on ("Research Alert") and then, in accordance with new tendencies, models developed for the forecast of future economic trends were suitably adjusted.

Odnosi sa finansijskim institucijama

Tokom 2019. godine, Raiffeisen banka nastavila je da održava i dodatno razvija saradnju sa međunarodnim i domaćim finansijskim institucijama, u cilju negovanja dugoročnog partnerstva koje smatra od suštinskog značaja za razvoj i uspešnost zajedničkog poslovanja.

Uz podršku Raiffeisen Bank International AG, kao odraza duge i dokazane tradicije u radu, banka je uspela da bude značajan i pouzdan partner, a ujedno doprinese potrebama i holističkom pristupu zahtevima klijenata.

Banka je za potrebe finansiranja obezbedila sredstva iz sopstvenih izvora, ali i omogućila korišćenje sredstava iz APEX linija koje je Evropska investiciona banka odobrila preko Narodne banke Srbije.

Kao rezultat saradnje sa Evropskim investitionim fondom (EIF) banka je i u 2019. godini, tj. drugu godinu zaredom nastavila da kroz garancijske šeme WB EDIF – "EU za Srbiju – finansiranje za MSP" i InnovFin finansiranih od strane EU, podržava mala i srednja preduzeća omogućivši im lakši pristup finansiranju.

U 2019. godini, banka je postala partner države Republike Srbije u sprovođenju programa promocije preduzetništva i samozapošljavanja, namenjenom za finansiranje startapova.

Brokersko-dilerski poslovi

Emitovanjem nove referentne ("benchmark") dinarske obveznice sa dospećem od sedam godina u iznosu od RSD 150 milijardi u 2019. godini država je ispunila još jedan preduslov da se njene obveznice nađu u "JP Morgan Government bond" indeksu. Usled velikog interesovanja stranih investitora, ova emisija uticala je na povećanje likvidnosti na tržištu.

Trend pada prinosa na državne obveznice nastavio se još izraženije nego prethodne godine. U junu, država je posle više godina emitovala obveznice denominovane u evrima na međunarodnom tržištu, gde je usled velike tražnje ostvarila odlične uslove pri prodaji. Krajem godine organizovano je nekoliko buy-back aukcija na kojima je država pre roka dospeća otkupljivala izdate obveznice i time smanjivala svoje obaveze za 2020. godinu.

Na Beogradskoj berzi zabeležen je rast prometa u odnosu na prethodnu godinu za skoro 50%, zahvaljujući blok transakcijama u kojima je država otkupljivala akcije Komercijalne banke konsolidujući vlasničku strukturu pre prodaje banke. Indeks najlikvidnijih akcija Belex15 zabeležio je rast od 5,25%, dok je indeks Belex Line zabeležio rast od 8,65%.

Kastodi usluge

Raiffeisen banka imala je uspešnu poslovnu godinu u kojoj su povećani depoziti klijenata u finansijskim instrumentima za 9,30% procenata. Fokus na unapređenju kvaliteta kastodi usluga dao je očekivane rezultate. Raiffeisen grupacija nastavlja da promoviše tržišta centralne i istočne Evrope kroz mesečni magazin "GSS Press". U svom novembarskom izdanju "GSS Press" bio je posvećen srpskom tržištu.

Istraživanja

Mreža analitičara Raiffeisen grupacije – „Raiffeisen Research" nastavila je sa radom na unapređenju opšteg razumevanja ekonomskih tokova u periodu značajnih volatilnosti na globalnim finansijskim tržištima uzrokovanih geopolitičkim dešavanjima (uvođenjem protekcionističkih mera u globalnoj trgovini) i ekspanzivnim monetarnim politikama centralnih banaka SAD i Evropske unije (izveštaji CEE Strategy, Financial Markets & Global Strategy, CEE Banking Report), kao i celishodnijem sagledavanju lokalnih ekonomskih trendova u okviru publikacija („Short Note", kvartalni izveštaj „Serbia economic outlook" i mesečni "Ekonomski izveštaj").

Redovnim praćenjem i temeljnom analizom ključnih indikatora, promptno se izveštavalo o ključnim makroekonomskim indikatorima („Research Alert"), a zatim su se, u skladu sa novim tendencijama, adekvatno prilagođavali modeli razvijeni za procenu budućih ekonomskih tokova.

Raiffeisen Leasing

In the past few years, the leasing industry showed significant growth in sales, especially in the segment of passenger vehicles, where the company Raiffeisen Leasing maintained a high position in the market in 2019 as well.

Raiffeisen Leasing demonstrated in 2019 a clear commitment to nurturing and developing long-term relationships with its clients, reflected in the constant improvement of products and services. To offer even more attractive terms to its clients, Raiffeisen Leasing focused special attention to the further development of strengthening partnerships with the network of the most important dealers, as well as to developing strategic partnerships with the best-selling vehicle brands in Serbia through an array of mutual projects.

In accordance to market demands, Raiffeisen Leasing was primarily focused on vehicle financing in 2019. The total value of new sales at the end of the year amounted to € 75.44 million, of which vehicles were financed with € 56.40 million.

In 2019, Raiffeisen Leasing participated in the Support Program for Small and Medium Enterprises for equipment purchase in cooperation with the Ministry of Economy and the Development Agency of Serbia. The program includes equipment financing with 25% subvention by the state. A total of 69 contracts in the total value of 3.65 million euros were financed through this program.

Raiffeisen Leasing was dedicated to the further improvement of procedures and organization in the segment of risk management. Through professional risk management, a stable and sustainable portfolio growth was realized, reaching € 118.16 million. Also, special attention was focused on the constant improvement of processes with the aim of increasing efficiency and cost reduction.

Maintaining one of the leading positions in the market, reaching the optimum balance between the growth of business volume and keeping the costs of risk and profitability at an adequate level, strengthening cooperation with existing clients, dealers and insurance companies, as well as constant improvement and designing products in accordance with high standards, remain key goals set by Raiffeisen Leasing for the year 2020.

Raiffeisen Leasing

Lizing industrija poslednjih godina pokazuje značajan rast plasmana posebno u sektoru putničkih vozila, gde je kompanija Raiffeisen Leasing i tokom 2019. godine zadržala visoku poziciju na tržištu.

Raiffeisen Leasing pokazao je i tokom 2019. godine jasnu opredeljenost ka negovanju i razvijanju dugoročnih odnosa sa svojim klijentima koja se ogleda u konstantnom unapređenju proizvoda i usluga. Kako bi svojim klijentima ponudio još atraktivnije uslove, Raiffeisen Leasing je posebnu pažnju posvetio daljem jačanju partnerskih odnosa sa mrežom najznačajnijih dilera, kao i razvijanju strateške saradnje sa najprodavanijim automobilskim brendovima u Srbiji kroz niz zajedničkih akcija.

U skladu sa zahtevima tržišta, Raiffeisen Leasing je i tokom 2019. godine pre svega bio usmeren na finansiranje vozila. Ukupna vrednost novih plasmana na kraju godine iznosila je 75,44 miliona evra, od čega su vozila finansirana sa 56,40 miliona evra.

Raiffeisen Leasing je i 2019. godine učestvovao u Programu podrške za mala i srednja preduzeća za nabavku opreme u saradnji sa Ministarstvom privrede i Razvojnom Agencijom Srbije. Program podrazumeva finansiranje opreme uz subvenciju države u iznosu od 25%. Kroz ovaj Program finansirano je 69 ugovora ukupne vrednosti 3,65 milona evra.

Raiffeisen Leasing je tokom 2019. godine bio posvećen i daljem unapređenju procedura i organizacije u segmentu upravljanja rizicima. Kroz profesionalno upravljanje rizicima obezbeđen je stabilan i održiv rast portfolija, koji je dostigao nivo od 118,16 miliona evra. Takođe, posebna pažnja usmerena je na konstantno unapređenje procesa sa ciljem povećanja efikasnosti i smanjenja troškova.

Očuvanje jedne od vodećih pozicija na tržištu, postizanje optimalnog balansa između rasta obima poslovanja i održavanja troškova rizika i profitabilnosti na adekvatnom nivou, jačanje saradnje sa postojećim klijentima, dilerima i osiguravajućim kućama, te stalno unapređenje i kreiranje proizvoda u skladu sa visokim standardima, predstavljaju ključne ciljeve koje je Raiffeisen Leasing odredio za 2020. godinu.

Raiffeisen FUTURE

Voluntary Pension Fund Management Company

Raiffeisen FUTURE a.d. Beograd, VPFMC manages two voluntary pension funds: Raiffeisen FUTURE VPF and Raiffeisen EURO FUTURE VPF.

Raiffeisen FUTURE VPF has a variable currency structure of assets and invests mainly into debt securities. The fund has been successfully operating since 2007 with the rate of return since inception at 9.16% on an annual basis. The annual rate of return in 2019 was 4.02%. The value of the fund's investment unit as at Dec. 31, 2019, amounted to RSD 3,123.11. The net assets of the fund as at Dec. 31, 2019, were RSD 5.5 billion, which represented an annual growth of 12%.

Raiffeisen EURO FUTURE VPF started operating in 2015. The fund is most suitable for those clients who prefer their long-term savings to be invested in euro-denominated securities. In accordance with the fund's investment policy, 99% of the assets are invested in euro-denominated investment instruments, while 1% of the assets consists of dinar money deposits in the fund's account. The annual rate of return in 2019 was 1.39% in euros. The realized rate of return since inception as at Dec. 31, 2019, was 2.91% in euros on an annual basis. Considering that the fund's assets are invested exclusively in euro-denominated securities, the relevant return for the fund's members is the return expressed in euro. The net assets of the fund on Dec. 31, 2019, were RSD 225 million.

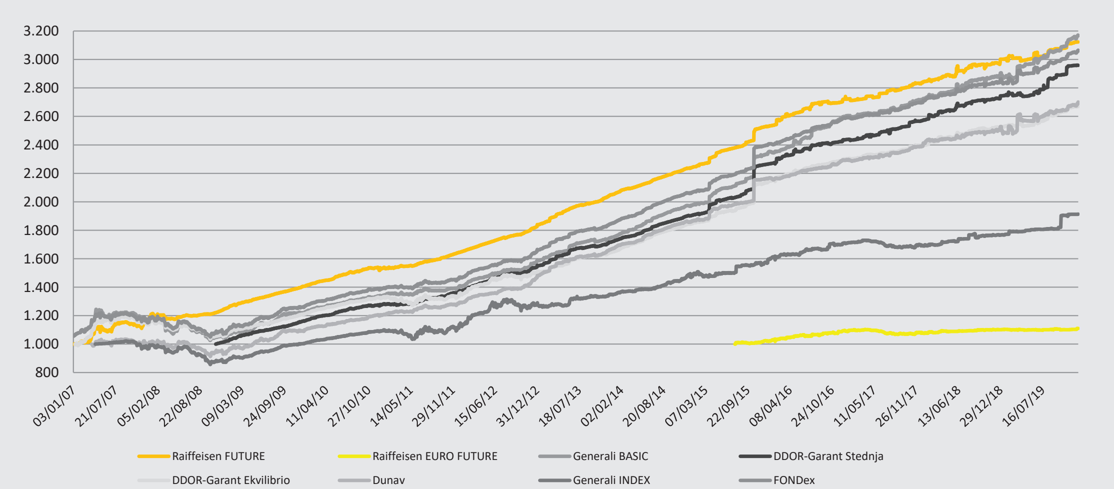
In 2019, the largest increase in the number of members in both funds was achieved compared to the industry. The number of members saving in both funds is 40,000. and it has increased by 6,001 while the total number of members in the industry increased by 14,630.

The market share measured by total assets under management in both funds is 12.6%.

High-quality service is provided to the members of both Raiffeisen FUTURE VPF and Raiffeisen EURO FUTURE VPF by the team of professionals with extensive experience in the VPF industry. In addition, there are 395 professionals licensed by the National Bank of Serbia at 86 branches of Raiffeisen banka throughout Serbia at the members' disposal.

Members may choose between the two funds with different investment policies, in terms of the currency structure, or they can pay contributions simultaneously into both funds.

Movement of FONDex* index value and Investment Unit values of VPFs in the period of Jan. 03, 2007 - Dec. 31, 2019



Source of the values of VPFs' investment units and FONDex: the National Bank of Serbia, www.nbs.rs

Raiffeisen FUTURE

Društvo za upravljanje dobrovoljnim penzijskim fondom

Raiffeisen FUTURE a.d. Beograd, DUDPF upravlja sa dva dobrovoljna penzijska fonda-DPF: Raiffeisen FUTURE i Raiffeisen EURO FUTURE.

Raiffeisen FUTURE DPF ima promenljivu valutnu strukturu i pretežno ulaže imovinu u dužničke hartije od vrednosti. Fond uspešno posluje od 2007. godine sa prinosom od početka poslovanja od 9,16% na godišnjem nivou. U 2019. godini, ostvaren je prinos od 4,02%. Vrednost investicione jedinice fonda na dan 31.12.2019. godine iznosi 3.123,11 dinara. Neto imovina fonda na dan 31.12.2019. iznosi 5,5 milijardi dinara, što predstavlja godišnji rast od 12%.

Raiffeisen EURO FUTURE DPF počeo je sa radom 2015. godine. Fond je namenjen svim klijentima koji žele da njihova dugoročna štednja bude investirana u evro denominovane hartije od vrednosti. U skladu sa investicionom politikom, 99% imovine ulaže se u evro denominovane investicione instrumente, dok 1% imovine čine dinarska sredstva na računu fonda. U 2019. godini fond je ostvario prinos od 1,39% u evrima. Ostvaren prinos od početka poslovanja fonda na dan 31.12.2019. godine iznosi 2,91% u evrima na godišnjem nivou. S obzirom na to da se imovina fonda ulaže isključivo u evro denominovane hartije od vrednosti, relevantan prinos za članove fonda je prinos izražen u evro valuti. Neto imovina fonda na dan 31.12.2019. iznosi 225 miliona dinara.

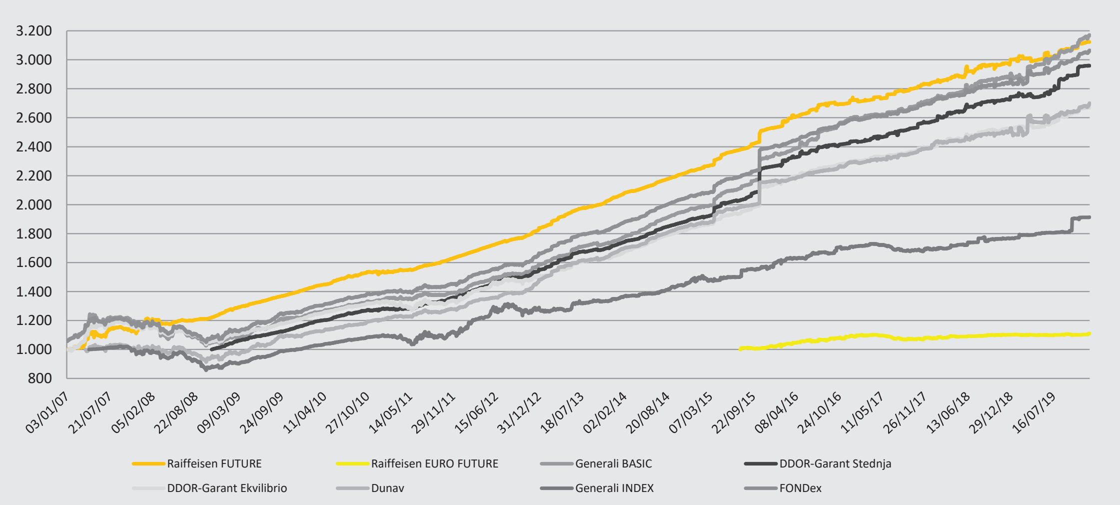
U 2019. godini ostvaren je najveći rast broja članova u oba fonda u odnosu na industriju. Ukupan broj članova koji štedi u oba fonda iznosi 40.000 i uvećan je za 6.001, dok je ukupan broj članova u industriji uvećan za 14.630.

Tržišno učešće neto imovine oba fonda kojima društvo upravlja iznosi 12,6%.

Visok kvalitet usluge članovima DPF Raiffeisen FUTURE i Raiffeisen EURO FUTURE pruža tim profesionalaca sa dugogodišnjim iskustvom u industriji. Takođe, članovima je na raspolaganju 395 profesionalaca licenciranih od strane Narodne banke Srbije u 86 filijala Raiffeisen banke širom Srbije.

Članovi mogu birati između dva fonda sa različitom investicionom politikom u pogledu valutne strukture, ili pak mogu ulagati u oba fonda istovremeno.

Kretanje vrednosti FONDEX-a* i investicionih jedinica fondova u periodu od 03.01.2007. - 31.12.2019.



Izvor podataka za vrednosti FONDex-a i investicionih jedinica: Narodna banka Srbije www.nbs.rs

Raiffeisen INVEST

Raiffeisen INVEST a.d. Belgrade Investment Fund Management Company again professionally managed assets of open investment funds – Raiffeisen CASH, Raiffeisen WORLD and Raiffeisen EURO CASH in 2019 and maintained its leading position in the market of investment funds in the country. At the end of 2019, the value of assets under management amounted to approx. € 273 million, i.e. a market share of 72 per cent was realized, in relation to the total value of net assets of all open-ended investment funds in the country.

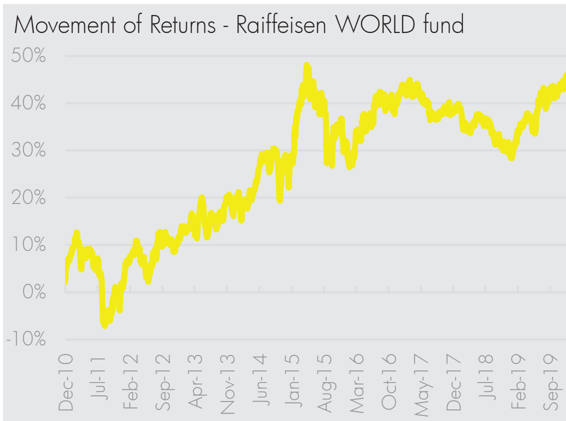
The open-ended investment fund Raiffeisen CASH – a money market fund, by investing funds into cash deposits and short-term debt securities, realized significant returns for its members in 2019 – the fund's investment unit (in dinars) rose by 2.97 per cent (p.a.) conclusive with December 31, 2019, while the fund's net assets grew by 62 per cent and reached a dinar countervalue of almost € 140 million and this fund positioned itself as the largest open investment fund in Serbia.

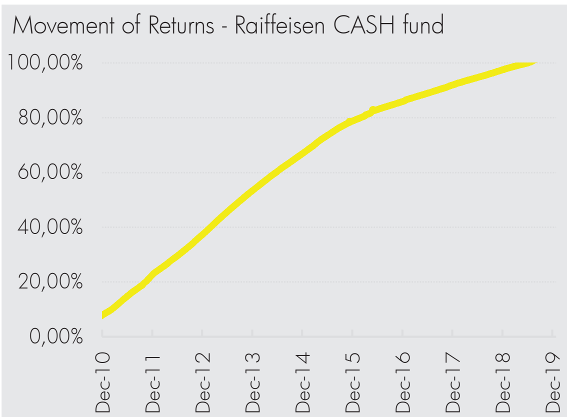
The open-ended investment fund Raiffeisen EURO CASH – a money market fund, by investing funds into money deposits with banks and short-term debt securities denominated in euros, realized stable returns for its members, on the one hand, as well as protecting dinar investments from oscillations of the foreign currency rate, on the other hand. In the course of 2019, the fund's investment unit grew by approximately 0.60 per cent (in euros), while the fund's net assets amounted to approx. € 123 million at the end of 2019.

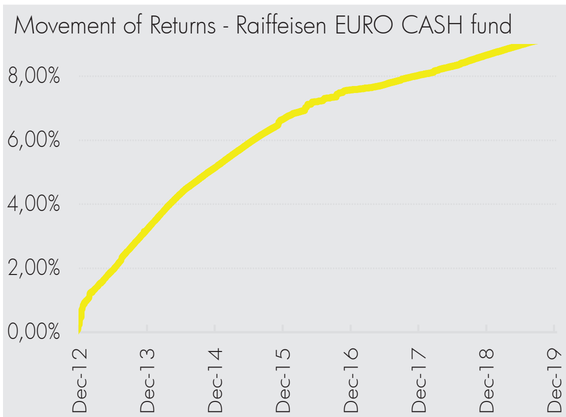
The open-ended investment fund Raiffeisen WORLD, established in August 2010 as an equity fund, but changed into a balanced fund in September 2015, with a multi-asset strategy of investing mostly into shares and bonds of developed and developing countries with the aim of realizing positive returns in the long term, but with accepting moderate risk. In 2019, the fund realized excellent returns for its members of 12.7 per cent (in euros) and having in mind the recommended long-term investing horizon, the effective annual returns amounted to 4.1 per cent (in euros) since the fund's inception up to December 31, 2019. The fund's net asset value amounted to approx. € 11.7 million at the end of 2019.

In the course of 2019, a Law on Open Investment Funds with a Public Offer was adopted, which means the legal framework was changed, moving in the direction of harmonization with EU regulations and this will affect the further development of this market and attract new participants. The investment fund market in Serbia saw a significant jump in the net asset amount of open investment funds of 63 per cent, so it amounted to almost € 380 million at the end of 2019 and the main generator of fund asset industry growth was precisely the growth of assets managed by Raiffeisen INVEST.

Raiffeisen INVEST plans to continue its investing activities in 2020 as well, in order to make it possible for the clients of Raiffeisen banka, through investing into investment funds, to realize returns corresponding to their investment goals, depending on their risk appetite and the investment horizon.







Raiffeisen INVEST

Raiffeisen INVEST a.d. Beograd Društvo za upravljanje investicionim fondovima je u 2019. godini profesionalnim upravljanjem imovinom otvorenih investicionih fondova – Raiffeisen CASH, Raiffeisen WORLD i Raiffeisen EURO CASH zadržalo lidersku poziciju na tržištu investicionih fondova u zemlji. Krajem 2019. godine vrednost imovine pod upravljanjem iznosila je oko 273 miliona evra, odnosno tržišno učešće od 72% u odnosu na ukupnu vrednost neto imovine svih otvorenih investicionih fondova u zemlji.

Otvoreni investicioni fond Raiffeisen CASH – novčani fond, ulaganjem u dinarske novčane depozite i kratkoročne dužničke hartije od vrednosti, je u 2019. godini ostvario odličan prinos za svoje članove – investiciona jedinica fonda je, zaključno sa 31.12.2019. godine, porasla 2,97% (u dinarima), a neto imovina fonda je značajno porasla 62% i dostigla dinarsku protivvrednost od skoro 140 miliona evra a ovaj fond se pozicionirao kao najveći otvoreni investicioni fond u zemlji.

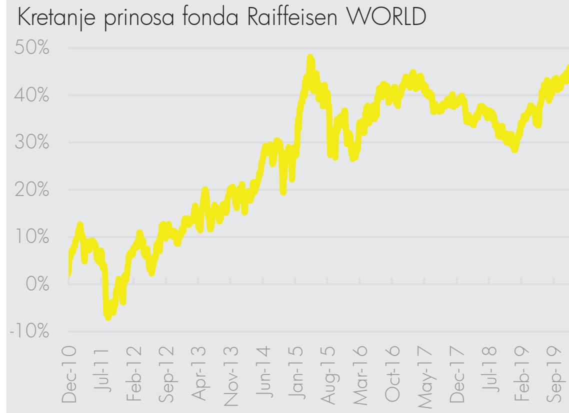
Otvoreni investicioni fond Raiffeisen EURO CASH – novčani fond, ulaganjem u novčane depozite kod banaka i kratkoročne dužničke hartije od vrednosti denominovane u evrima, je za svoje članove obezbedio ostvarenje stabilnog prinosa, s jedne strane i zaštitu dinarskih sredstava od oscilacija deviznog kursa, s druge strane. Investiciona jedinica fonda je u 2019. godini porasla približno 0,60% (u evrima), dok je neto imovina fonda na kraju 2019. godine iznosila pribiližno 123 miliona evra.

Otvoreni investicioni fond Raiffeisen WORLD organizovan je avgusta 2010. godine kao fond akcija, ali je u septembru 2015. godine promenjena vrsta fonda u balansirani fond, sa strategijom ulaganja u različite klase imovine, odnosno „multi-asset" strategijom investiranja većinom u akcije i obveznice razvijenih zemalja i zemalja u razvoju a u cilju ostvarivanja pozitivnog prinosa u dugom roku, ali i uz prihvatanje umerenog rizika. Fond je u 2019. godini ostvario sjajan prinos za svoje članove od 12,7% (u evrima), a imajući u vidu preporučeni dugoročni period investiranja, efektivni godišnji prinos iznosio je 4,1% (u evrima) od početka organizovanja do 31.12.2019. godine. Vrednost neto imovine fonda je na kraju 2019. godine iznosila je približno 11,7 miliona evra.

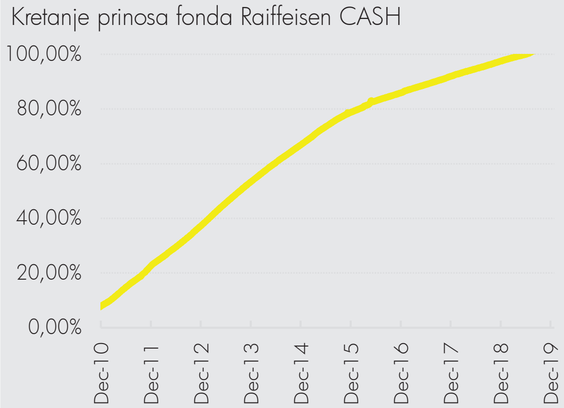
Tokom 2019. godine, usvojen je Zakon o otvorenim investicionim fondovima sa javnom ponudom, čime je zakonska regulativa izmenjena u pravcu uskladjivanja sa EU regulativom, što će uticati na dalji razvoj ovog tržišta i privlačenje učesnika. Na tržištu investicionih fondova u zemlji došlo je da značajnog skoka visine neto imovine otvorenih investicionih fondova od 63%, tako da je na kraju 2019-te godina iznosila skoro 380 miliona evra, a generator ovog rasta je u najvećem delu bio upravo porast imovine fondova kojima upravlja Raiffeisen INVEST.

Raiffeisen INVEST planira da i u 2020. godini nastavi sa investicionim aktivnostima kako bi, odgovornim i profesionalnim upravljanjem, klijentima Raiffeisen banke omogućio da kroz ulaganje u investicione fondove, ostvare odgovarajući prinos u skladu sa investicionim ciljevima, zavisno od stepena rizika koji su spremni da prihvate i vremenskog horizonta investiranja.

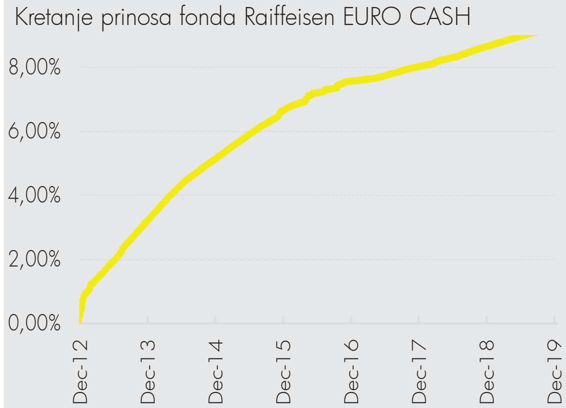
Kretanje prinosa fonda Raiffeisen WORLD



Kretanje prinosa fonda Raiffeisen CASH



Kretanje prinosa fonda Raiffeisen EURO CASH



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Fax: (+381 11) 2207 080
SWIFT Code:RZBSRSBG

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Beograd III
Resavska 1
11000 Beograd

Beograd IV
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11070 Novi Beograd

Jug
Srete Mladenovića 2
34000 Kragujevac

Sever
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21000 Novi Sad

Zapad
Gradsko šetalište bb
32000 Čačak

Belgrade I Region

Beograd
- Terazije 27
- Cara Dušana 78
- Vojvode Milenka 38
- 27. marta 31
- Kralja Petra 14
- Bulevar oslobođenja 7-9
- Maksima Gorkog 75
- Ruzveltova 10
- Grčko-srpskog prijateljstva 1-3
- Mirijevski venac 27
- Marijane Gregoran 58
- Kursulina 41
- Mladenovac, Kralja Petra I 241a

Belgrade II Region

Beograd
- Đorđa Stanojevića 16
- Jurija Gagarina 151
- Bulevar umetnosti 4
- Glavna 13m
- Milutina Milankovića 134
- Prvomajska 101
- Bulevar Mihajla Pupina 181
- Bulevar Mihajla Pupina 4
- Partizanske avijacije 12
- Milutina Milankovića 1ž

Požarevac
Moše Pijade 10

Smederevo
Vojvode Đuše 13-17

Smederevska Palanka
Prvog srpskog ustanka 33

Belgrade III Region

Beograd
- Resavska 1
- Bulevar kralja Aleksandra 171
- Ustanička 64a
- Bratstva i jedinstva 73
- Bulevar kralja Aleksandra 328
- Grge Andrijanovića 2
- Vojvode Stepe 199
- Patrijarha Dimitrija 14
- Vidikovački venac 80b
- Crnotravska 7-9
- Lazarevac, Dimitrija Tucovića 1

Vršac
Trg Svetog Teodora Vršačkog 37

Pančevo
Generala Petra Aračića 4 - 6

Zrenjanin
Kralja Aleksandra Karađorđevića 4

Belgrade IV Region

Beograd
- Bulevar Zorana Đinđića 64a
- Sarajevska 3
- Trgovačka 5
- Radnička 9
- Bulevar vojvode Mišića 37
- Požeška 81a
- Obrenovac, Kneza Mihajla 6

Mreža filijala

Šabac
Masarikova 7

Stara Pazova
Kralja Petra I 1

Loznica
Kneza Miloša 2

Inđija
Novosadska 9

Ruma
Orlovićeva 4

Sremska Mitrovica
Kralja Petra I 20

Region „North”

Novi Sad
- Bulevar oslobođenja 56a
- Bulevar oslobođenja 76a
- Bulevar cara Lazara bb
- Trg slobode 3
- Veselina Masleše 30

Bačka Palanka
Kralja Petra I 11

Temerin
Novosadska 348

Subotica
Trg slobode 5

Senta
Glavni trg 8

Sombor
Avrama Mrazovića 1

Vrbas
Ive Lole Ribara 16

Kikinda
Trg srpskih dobrovoljaca 28

Region „South”

Kragujevac
- Srete Mladenovića 2
- Nikole Pašića 7

Niš
- Balkanska 13
- Vizantijski bulevar bb
- Obrenovićeva 35

Vranje
Stefana Prvovenčanog 58

Pirot
Pirotskih oslobodilaca bb

Leskovac
Bulevar oslobođenja 154

Zajecar
Krfska 16

Bor
Trg Nikole Pašića 5

Region „West”

Čačak
- Gradsko šetalište bb
- Braće Spasića bb

Valjevo
Karadjordjeva 114

Prijepolje
Valterova 20

Novi Pazar
AVNOJ-a 7/3

Kraljevo
Hajduk Veljkova 16

Paraćin
Vožda Karađorđa 31

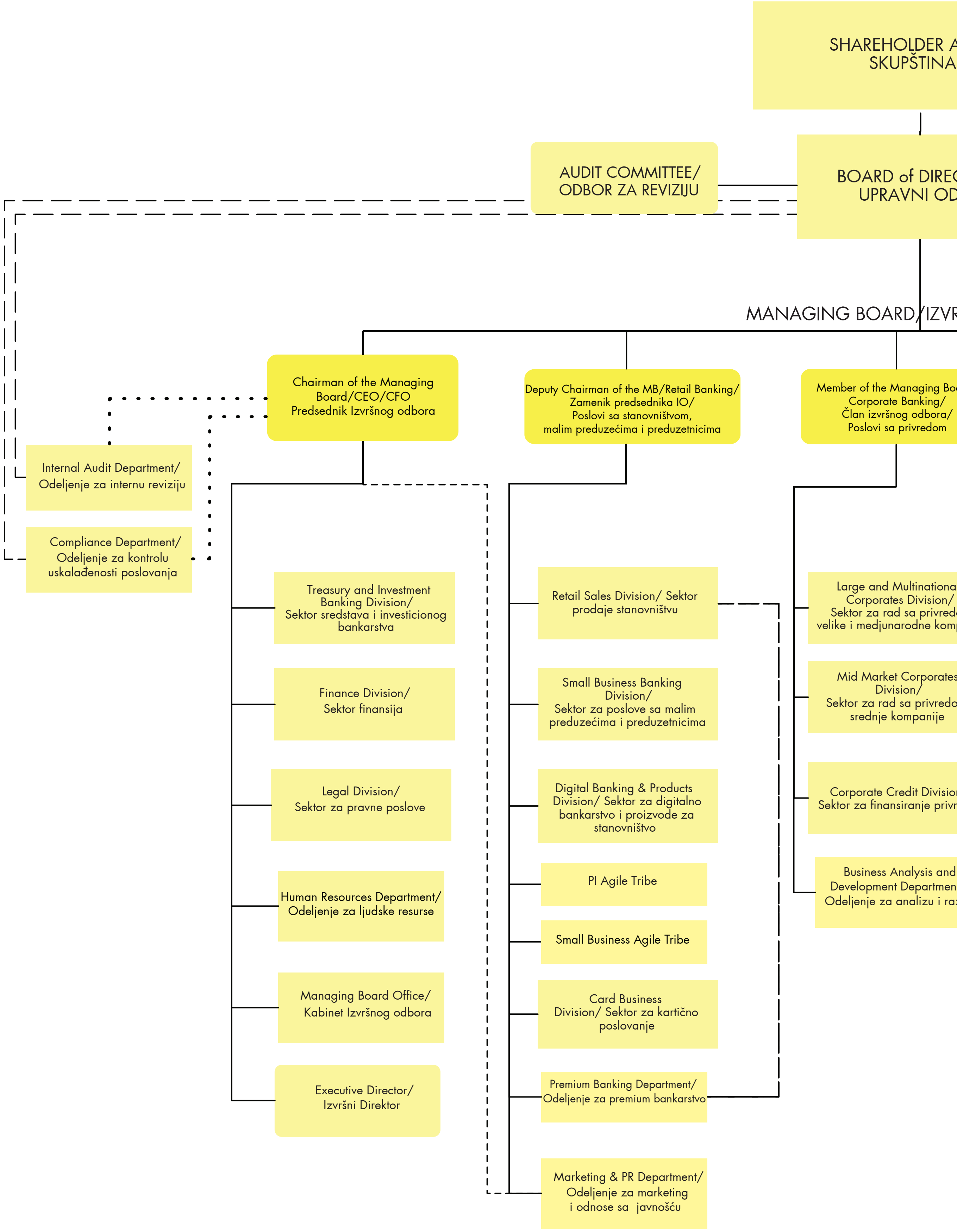
Užice
Dimitrija Tucovića 91

Aranđelovac
Knjaza Miloša 259

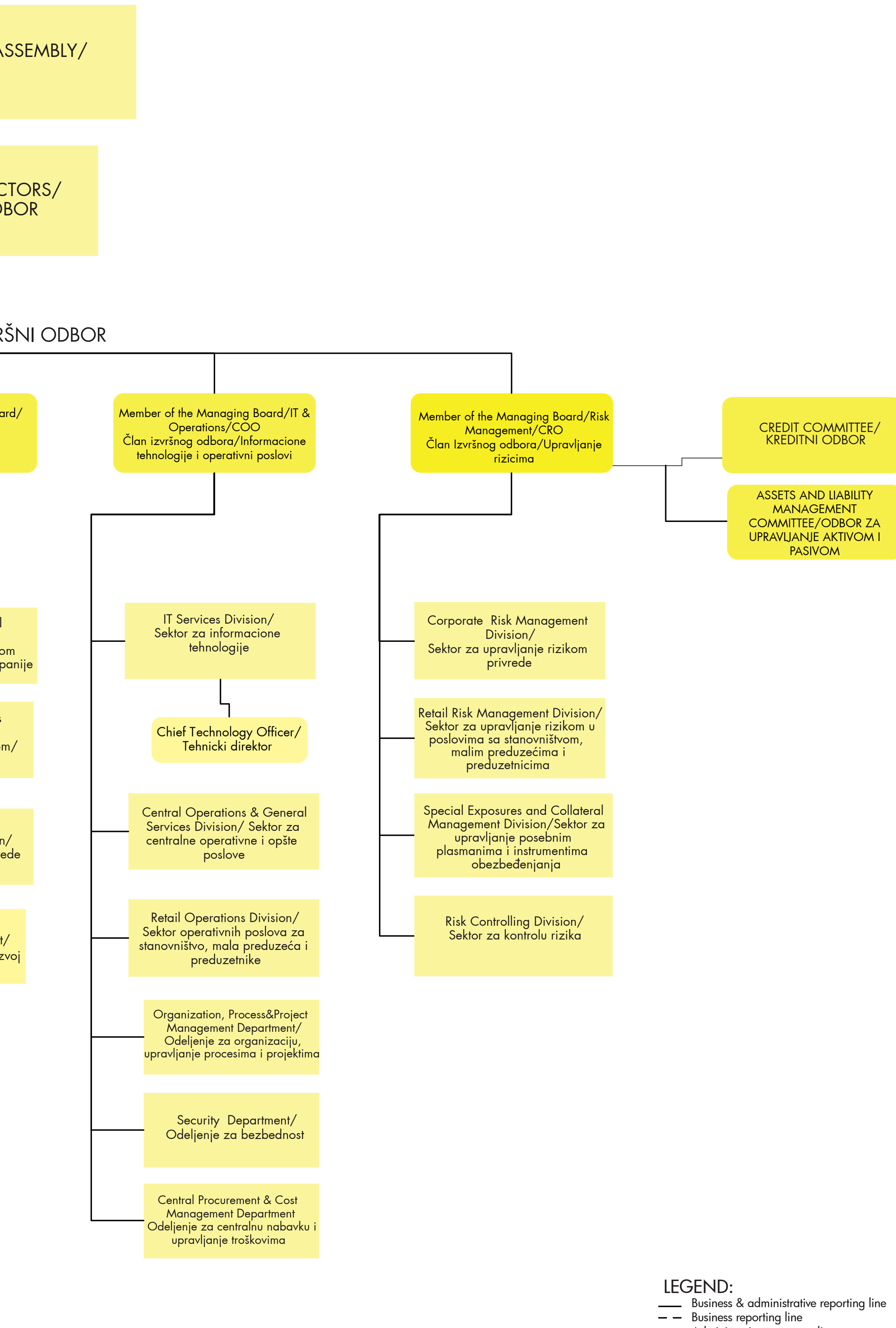
Jagodina
Kneginje Milice 16a

Kruševac
Majke Jugovića 8

Organizational Chart



Organizaciona struktura banke



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Financial Statements

RAIFFEISEN BANKA A.D. BEOGRAD

Separate financial statements
for the year ended 31 December 2019
prepared in accordance with
International Financial Reporting Standards

24 March 2019

Finansijski izveštaj

CONTENTS

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INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF RAIFFEISEN BANKA A.D. BEOGRAD

Opinion

We have audited the accompanying financial statements of Raiffeisen banka a.d. Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International financial reporting standards.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards applicable in Republic of Serbia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Responsibilities of management for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

Belgrade, 16 April 2020

Danijela Mirković
Authorised Auditor
Ernst & Young d.o.o. Beograd

SEPARATE STATEMENT OF PROFIT OR LOSS

Year Ended December 31

In thousands of RSD	Note	2019	2018
Interest income	6, 3(c)	10,290,066	9,971,784
Interest expense	6, 3(c)	(183,775)	(177,772)
Net interest income		**10,106,291**	**9,794,012**
Fee and commission income	7, 3(d)	6,122,470	5,679,974
Fee and commission expense	7, 3(d)	(1,777,935)	(1,574,555)
Net fee and commission income		4,344,535	4,105,419
Net gain on change in fair value of financial instruments	5, 3(e)	123,542	302,339
Net gain / (loss) on derecognition of financial assets measured at fair value	3(k)	147,187	20,694
Net gains / (losses) on hedging	3(f)	(42,402)	63,727
Net gains on foreign exchange differences and effects of foreign currency clause	8, 3(b)	2,275,486	1,694,311
Net impairment gain/(loss) on financial assets	9, 3(k)	(324,231)	(346,023)
Net gain / (loss) on derecognition of financial instruments measured at amortized cost	10	(306,892)	760,742
Other operating income	10	175,043	100,918
Operating income, net		**16,498,559**	**16,496,139**
Personnel expenses	11, 3(w)	(3,307,829)	(3,104,763)
Depreciation and amortisation	20, 21, 3(q), 3(r)	(1,111,942)	(635,538)
Other income	12.1	180,565	213,569
Other expenses	12.2	(5,266,459)	(5,324,104)
Profit before income tax		**6,992,894**	**7,645,303**
Income tax expense	13, 3(j)	(879,011)	(1,017,094)
Profit for the year		6,113,883	6,628,209

The accompanying notes form an integral part
of these separate financial statements

Belgrade, 16 April 2020

For and on behalf of the Management Raiffeisen banka a.d., Beograd

Zoran Petrović
Chairman of the Managing Board

Raiffeisen banka a.d. * BEOGRAD *

Petar Jovanović
Deputy Chairman of the Managing Board

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

Year Ended December 31

In thousands of RSD	Note	2019	2018
Profit for the year		6,113,883	6,628,209
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Equity instruments at FVOCI – net change in fair value		265,227	116,054
Items that are or may be reclassified subsequently to profit or loss			
Debt investment at FVOCI – net change in fair value		321,897	98,902
Cash flow hedging - valuation		(49,704)	(25,387)
Changes in deferred tax assets arising from other comprehensive income		(40,829)	(12,575)
Other comprehensive income, net of tax		496,591	176,994
Total other comprehensive income for the period		6,610,474	6,805,203

The accompanying notes form an integral part
of these separate financial statements

SEPARATE STATEMENT OF FINANCIAL POSITION

As of December 31

In thousands of RSD	Note	31.12.2019	31.12.2018
Assets			
Cash and balances with central banks	14, 3(l)	69,905,262	71,884,119
Receivables arising from derivatives	15, 3(k)	21,442	16,141
Securities	16, 3(k), 3(p)	54,502,443	50,328,204
Loans and receivables to banks and other financial institutions	17, 3(k), 3(o)	13,550,612	11,558,104
Loans and receivables to customers	18, 3(k), 3(o)	171,584,719	150,387,617
Receivables from derivatives held for hedging against risks	3(k), 3(n)	152,072	77,362
Investments in subsidiaries	19	1,293,551	1,028,323
Intangible assets	21, 3(q)	731,144	647,494
Property, plant and equipment	20, 3(i), 3(r)	6,172,623	4,790,135
Current tax assets	3(j)	11,682	-
Deferred tax assets	22, 3(j)	266,268	306,786
Other assets	23	711,319	900,049
Total assets		**318,903,137**	**291,924,334**
Liabilities and equity			
Liabilities arising from derivatives	3(k)	18,516	6,959
Deposits and other liabilities from banks, other financial institutions and central bank	24, 3(t)	4,287,532	3,038,158
Deposits and other liabilities from other customers	25, 3(t)	251,813,778	227,889,691
Liabilities arising from derivatives held for hedging against risks	3(k), 3(n)	234,945	71,709
Provisions	26, 3(u)	1,744,789	1,522,399
Current tax liabilities	3(j)	-	66,208
Other liabilities	27	2,912,384	1,420,282
Total liabilities		**261,011,944**	**234.015.406**
Share capital	28, 3(x)	27,466,158	27,466.158
Profit for the year	28, 3(x)	6,213,212	6,727,538
Reserves	28, 3(x)	24,211,823	23,715,232
Total equity	**28, 3(x)**	**57,891,193**	**57,908,928**
Total		**318,903,137**	**291,924,334**

The accompanying notes form an integral part
of these separate financial statements

SEPARATE STATEMENT OF CHANGES IN EQUITY

Year Ended December 31

In thousands of RSD	Share capital	Profit reserves	Revaluation reserves	Profit	Total
Balance as at 1 January 2018	27,466,158	23,353,465	(2,905)	6,626,785	57,443,503
Adjustment on initial application of IFRS 9, net of tax	-	-	187,678	99,329	287,007
Restated balance at 1 January 2018	27,466,158	23,353,465	184,773	6,726,114	57,730,510
Profit for the year	-	-	-	6,628,209	6,628,209
Total comprehensive income					
Equity instruments at FVOCI – net change in fair value	-	-	116,054	-	116,054
Debt investment at FVOCI – net change in fair value	-	-	98,902	-	98,902
Cash flow hedging - valuation	-	-	(25,387)	-	(25,387)
Related tax	-	-	(12,575)	-	(12,575)
Transactions with owners of the Bank					
Dividends paid	-	-	-	(6,626,785)	(6,626,785)
Balance as at 31 December 2018	27,466,158	23,353,465	361,767	6,727,538	57,908,928
Balance as at 1 January 2019	27,466,158	23,353,465	361,767	6,727,538	57,908,928
Profit for the year	-	-	-	6,113,883	6,113,883
Total comprehensive income	-	-	496,591	-	496,591
Transactions with owners of the Bank					
Dividends paid	-	-	-	(6,628,209)	(6,628,209)
Balance as at 31 December 2019	27,466,158	23,353,465	858,358	6,213,212	57,891,193

The accompanying notes form an integral part
of these separate financial statements

SEPARATE STATEMENT OF CASH FLOWS

Year Ended December 31

In thousands of RSD	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**17,994,096**	**17,093,906**
Inflow from interest	10,297,458	9,994,981
Inflow from fees and commissions	6,091,371	5,678,784
Inflow from other operating activities	1,605,267	1,420,141
Cash outflow in operating activities	**(10,628,767)**	**(10,507,226)**
Outflow from interest	(184,538)	(176,253)
Outflow from fees and commission	(1,778,755)	(1,575,282)
Outflow from gross salaries, benefits and other personal expenses	(3,239,732)	(3,127,034)
Outflow from taxes, contributions and other duties charged to income, excluding corporate income tax	(950,118)	(948,081)
Outflow from other operating expenses	(4,475,614)	(4,680,576)
Net cash inflow from operating activities before increase or decrease in financial placements and deposits	**7,365,329**	**6,586,680**
Cash inflow from placements, deposits taken and other liabilities	**27,036,158**	**27,577,188**
Net inflow from receivables based on derivatives designed to protect against risks and changes in the fair value of items that are subject to risk protection	-	-
Net inflow from deposits and other liabilities to banks, other financial institutions, central bank and customers	26,860,888	27,570,848
Net infrom from other financial liabilities	11,557	6,340
Net inflow from financial derivatives held for hedging against risks and change in fair value of hedged items	163,713	-
Cash outflow from placements, deposits taken and other liabilities	**(37,052,480)**	**(23,321,004)**
Net outflow from loans and receivables to banks, other financial institutions, central banks and clients	(27,770,278)	(12,451,660)
Net outflow from securities and other financial investment not intended to be invested	(9,207,519)	(10,818,407)
Net outflow from receivables from derivatives held for hedging against risks and change in fair value of hedged items	(74,693)	(1,062)
Net outflow from liabilities arising from derivatives held for hedging against risks and change in fair value of hedged items	-	(49,875)
Net cash inflow from operating activities before profit tax	**(2,650,993)**	**10,842,864**
Profit tax paid	(957,212)	(1,192,780)
Dividends paid	(6,296,798)	(6,295,446)
Net cash inflow from operating activities	**(9,905,003)**	**3,354,638**

SEPARATE STATEMENT OF CASH FLOWS continued

Year Ended December 31, 2016

In thousands of RSD	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**16,264,567**	**10,413,312**
Inflow from investments in investment securities	16,254,981	10,398,967
Inflow from sale of intangible assets, property, plant and equipment	9,586	14,345
Cash outflow from investing activities	**(11,966,930)**	**(6,362,529)**
Outflow from investments in investment securities	(10,574,570)	(5,584,040)
Outflow for purchase of intangible assets, property, plant and equipment	(1,392,360)	(778,489)
Net cash inflow from investing activities	**4,297,637**	**4,050,783**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash outflow from financing activities	**(1,586,705)**	**(1,238,794)**
Cash outflows from borrowings	(1,586,705)	(1,238,794)
Net cash outflow from financing activities	**(1,586,705)**	**(1,238,794)**
TOTAL CASH INFLOW	61,294,821	55,084,406
TOTAL CASH OUTFLOW	(68,488,892)	(48,917,779)
NET INCREASE IN CASH	(7,194,071)	6,166,627
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 14.2)	51,206,527	44,882,429
POSITIVE / (NEGATIVE) EXCHANGE RATE DIFFERENCES	245,863	157,471
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 14.2)	44,258,319	51,206,527

The accompanying notes form an integral part of these separate financial statements

1. THE BANK'S ESTABLISHMENT AND ACTIVITY

Raiffeisenbank Jugoslavija a.d. Beograd (hereinafter: "the Bank") was established in 2001 and was registered with the Commercial Court in Belgrade on 10 April 2001 (decision no. VFi-3724/01). In 2003, Raiffeisenbank Jugoslavija a.d. Beograd has changed its name to Raiffeisenbank a.d. Beograd. This change was registered in Commercial Court in Belgrade od 24 April 2003, under number XI Fi 4800/03. On 9 October 2006, the Bank changed its name from Raiffeisenbank a.d. to Raiffeisen banka a.d, in accordance with the Decision of Serbian Business Register Agency no. BD 159711/2006.

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

- deposit and credit operations;
- foreign exchange and currency exchange operations;
- payment transactions;
- issuing payment cards;
- Securities transactions (issuing securities and custody bank operations, etc.);
- broker dealer business;
- issuance of guarantees, bills of exchange and other forms of guarantees;
- purchase, sale and collection of receivables (factoring, forfeiting, etc.);
- insurance brokerage;
- mediation activities for related parties founded by the Bank and rendering services to related parties founded by the Bank, in areas for which those entities do not have their own organizational units.

By the decision of the National Bank of Yugoslavia no. 86/2001 from 11 April 2001, the Bank was granted a license to conduct payment transactions and credit operations with foreign countries ("the great authority").

The Bank's managing bodies are: Shareholders'Assembly, Board of Directors and Managing Board. Members of the Board of Directors are appointed by the Shareholders' Assembly. At least one-third of the members of the Board of Directors are persons independent from the Bank, that is, persons who do not have direct or indirect ownership in the Bank, nor in the members of the banking group which is the ultimate owner of the Bank. Legal representative of the Bank is the Chairman of the Management. The Bank also formed the following committees: the Board for monitoring the Bank's operations (Audit Committee), the Credit Committee and the Assets and Liabilities Management Committee.

The Bank performs its operations with headquarters in New Belgrade, at Djordje Stanojevic Street no. 16 and through its regional centers - Regional Center Belgrade 1 (8 branches and 5 outlets), Regional Center Belgrade 2 (with one local branch, 7 branches and 5 outlets), Regional Center Belgrade 3 (9 branches and 5 outlets), Regional Center Belgrade 4 (with one regional branch, one local branch, 6 branches and 5 outlets), Regional Center North (with two local branches, 7 branches and 3 outlets), Regional Center West (with one regional branch, 4 local branches, 4 branches, 2 outlets) and Regional Center South (with one regional branch, one local branch, 3 branches, 5 outlets).

As at 31 December 2019 the Bank has 1,595 employees (31 December 2018: 1,568).

Tax identification number of the Bank is 100000299.

2. BASIS OF PREPARATION

(a) Statements of compliance

These separate financial statements (hereinafter: separate financial statements or financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and the regulations of the National Bank of Serbia governing the financial reporting of banks.

These financial statements are separate (unconsolidated) statements of the Bank as. The Bank has prepared consolidated financial statements in accordance with IFRS at the same issuing date as separate financial statements.

The accompanying financial statements are presented in the form prescribed by the Decision on the Forms and Contents of Items in Financial Statement Forms for Banks (Official Gazette of the Republic of Serbia No. 101/2017, 38/2018 and 103/2018).

2. BASIS OF PREPARATION (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following position which are valued at fair value:

- derivative financial instruments,
- financial instruments at fair value through profit or loss,
- financial instruments through other comprehensive result,
- liabilities from trading activities.

(c) Functional and presentation currency

The financial statements are presented in thousands of Serbian Dinars ("RSD") which is the Bank's functional and presentation currency. All financial information is presented in Serbian Dinars rounded to the nearest thousand, unless stated otherwise.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 3.1.

(e) Change in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

The Bank has initially adopted IFRS 16 Leases startomg from 1 January 2019. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Bank's financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2019, unless otherwise stated. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective

2 BASIS OF PREPARATION (continued)

(e) Change in accounting policies (continued)

- IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases. The Bank does not appear as a lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for branches and outlets, warehouse, cars and premises for ATMs. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3(i) for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 3(i) for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

(i) Leases previously classified as finance leases

Under IFRS 16.C11, for leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

The Bank did not have leases previously classified as finance lease.

(ii) Leases previously accounted for as operative leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application.

All amounts expressed in thousand of RSD, unless otherwise stated

2. BASIS OF PREPARATION (continued)

(e) Change in accounting policies (continued)

In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank applied available practical expedient:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:
- Right-of-use assets of RSD 1,499,364 thousand were recognised and presented in the statement of financial position within "Property, plant and equipment";
- Additional lease liabilities of RSD 1,499,364 thousand, included in "Other liabilities", were recognised;
- The adoption of IFRS 16 had no impact on the Bank's retained earnings and no material impact on its capital adequacy ratio.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments as at 31 December 2018	1,512,424
Weighted average incremental borrowing rate as at 1 January 2019	2.24%
Discounted operating lease commitments as at 1 January 2019	1,402,534
Less:	
Commitments relating to short-term leases	(2,128)
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	98,958
Lease liabilities as at 1 January 2019	**1,499,364**

- **Amendment of IFRS 9 Prepayment features with negative compensation**

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These amendments had no impact on the Bank's financial statements.

2. BASIS OF PREPARATION (continued)

(e) Change in accounting policies (continued)

- **Amendments of IAS 28 Long-term Interests in Associates and Joint Ventures**

The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These amendments had no significant impact on Bank's financial statements.

- **IFRIC 23 Interpretation Uncertainty over Income Tax Treatments**

he Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This interpretation did not have significant impct on Bank's financial statements.

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

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These amendments had no significant impct on Bank's financial statements.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements:

- IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements": The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 "Income Taxes": The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

- IAS 23 "Borrowing Costs": The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2. BASIS OF PREPARATION (continued)

(f) Standards and Interpretations in Issue not yet effective

At the date of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- Amendment in IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

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

- Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- Amendments IFRS 3 “Business Combinations”

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. It is not expected that these amendments will have significant effect on Bank’s financial statements.

- Amendments of IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”: Definition of ‘material’

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’. In addition, the explanations accompanying the definition have been improved.

2. BASIS OF PREPARATION (continued)

(f) Standards and Interpretations in Issue not yet effective (continued)

The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that these amendments will have significant effect on Bank's financial statements.

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

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

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

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

(g) Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue in operation for the foreseeable future.

(h) Reconciliation of receivables and liabilities

In accordance with effective legislation, the Bank reconciled its receivables and liabilities with its customers and borrowers as at 31 October 2019. Not confirmed receivables amount RSD 151,667 thousand, while not confirmed liabilities amounts RSD 17,188 thousand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Bank. The only exceptions relates to adoption of IFRS 16, which is disclosed for accounting policies which were affected by IFRS 16 adoption.

(a) Separate financial statements and consolidation

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

Company	Equity investment
Društvo za upravljanje dobrovoljnim penzijskim fondom Raiffeisen Future a.d., Beograd	100%
Društvo za upravljanje investicionim fondovima Raiffeisen Invest a.d., Beograd	100%
Raiffeisen Leasing d.o.o., Beograd	100%

The Bank prepared consolidated financial statements in accordance with IFRS at the same issuing date as separate financial statements. Consolidated financial statements of the Bank represents sub-consolidated financial statements since the Parent company of the Bank prepares ultimate consolidated financial statements (Note 2. a).

In accordance with the Law on Accounting, article 30, the Bank decided to merge an individual annual business report and consolidated business report into a single report. In accordance with the above, the Bank, as a parent, decided to present the annual individual business report and consolidated annual business report as one report, which will contain information of importance for the economic entity within the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency

Transactions in foreign currencies are translated into Dinars at the middle exchange rate of the National bank of Serbia ("NBS") prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the middle exchange rate of NBS ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income. Non-monetary assets denominated in foreign currency are translated at the middle exchange rate of NBS ruling at the date of transaction.

Foreign currency difference arising on payment transaction during the year, as well as foreign currency differences arising on translation on the balance sheet date are recognized in Statement of profit or loss as Net gains/(losses) on foreign exchange differences and effect of foreign currency clause.

Contingent liabilities at balance sheet date are translated into Dinars at the middle exchange rate of NBS prevailing at the balance sheet date.

Receivables and liabilities with foreign currency clause are translated into Dinars at the middle exchange rate of NBS prevailing at the balance sheet date. Foreign currency difference arising on such transactions are recognized in Statement of profit or loss as Net gains/(losses) on foreign exchange differences and effect of foreign currency clause.

Official exchange rates for major currencies used in the translation of the statement of financial position items denominated in foreign currencies were as follows:

Currency	31.12.2019	31.12.2018
CHF	108.4004	104.9779
USD	104.9186	103.3893
EUR	117.5928	118.1946

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Interest income and expense

(i) Effective Interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Fees that are an integral part of the effective interest rate of a financial instrument include:

- Any origination fees received by the Benk relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument;
- Any commitment fees received by the entity to originate a loan when the loan commitment is not measured at FVTPL and it is probable that the Bank will enter into a specific lending arrangement. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry;
- Any origination fees paid on issuing financial liabilities measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability. The Bank distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

Fees that are part of the effective interest rate are recognized in the income statement at effective interest rate model, except for financial instrument with no predefined annuity plan, such as loan facilities, credit cards and overdrafts, where linear model of recognition is used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Interest income and expense

Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 include:

- Fees charged for servicing a loan;
- Commitment fees to originate a loan when the loan commitment is not measured at FVTPL and it is unlikely that a specific lending arrangement will be entered into; and
- Loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

(ii) Amortized costs and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(iii) Calculation of interest income and expenses

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves

For information on when financial assets are credit-impaired, see Note 3 (k) (viii).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Interest income and expense

(iv) Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- Interest on financial assets and financial liabilities measured at amortised cost;
- Interest on debt instruments measured at FVOCI;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense, calculated by using effective interest rate, presented in the statement of profit or loss and OCI includes:

- Financial liabilities measured at amortised cost; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fee and commission income and expense

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

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

(e) Net gains/(losses) on financial assets held for trading

Net gains/(losses) on financial assets held for trading comprise gains fewer losses related to trading assets and liabilities and includes all realised and unrealised fair value changes.

(f) Net gains/(losses) on hedging

Net gains/(losses) on hedging comprise gains fewer losses related to change in fair value of derivatives held for hedging against risks.

(g) Net gains/(losses) on financial assets designated at fair value through profit or loss

Net gains/(losses) on financial assets designated at fair value through profit or loss comprise gains minus losses related to financial assets designated at fair value through profit or loss, and includes all realised and unrealised fair value changes.

(h) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are presented in Other operating income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases

Policy applicable after 1 January 2019

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, which includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, estimated costs of dismantling and removing the underlying asset or restoring the site, less any lease incentives received.

For subsequent measurement of right-of-use, the Bank uses the cost model. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 20 at the balance sheet position Property, plant and equipment.

Right-of-use assets are subject to impairment in line with the Bank's policy as described in Note 3(s) Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

After initial recognition, lease liabiliteise are measured at amortized costs, using effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

(ii) Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Policy applicable before 1 January 2019

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The Bank is involved into lease arrangements as the lessee.

(i) Lease liabilities

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Leased assets

Assets leased under lease agreement, where the term of the lease transfers substantially all the risks and rewards incidental to ownership on the Bank, are recognized in the Statement of financial position. Assets held under finance lease are recognized as asset of the Bank at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Subsequent measurement of asset held under finance lease is performed in accordance with accounting policy that is applied for related asset.

The leases relating to the branch and outlet premises are entered into by the Bank primarily as operating leases. The total payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease, while such leased assets are not recognized in the Statement of financial position of the Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Tax

(i) Current income tax

Tax on profit represents an amount calculated and payable under the Serbian Corporate Income Tax Law. The income tax rate for 2019 is 15% (2018: 15%), In accordance with effective regulation, tax payer is obliged to calculate income tax for reporting period and to file tax return.

Taxable profit includes the profit shown in the statutory Statement of income and adjustments for permanent differences, as defined by the Serbian Tax Law. Such adjustments comprise mainly adding back certain disallowed expenses and deducting certain capital expenditure and investments incurred during the year.

(ii) Deferred income tax

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

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward and tax credits, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carry forward can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. At as 31 December 2018, deferred tax is measured at tax rate of 15% (31 December 2017: 15%). Deferred tax is recognized in Statement of profit or loss, except for deferred tax related to position recognised in equity, when deferred tax is also recognized in equity.

(iii) Other taxes and contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as service tax, tax on investments in equity and contributions on salaries and wages. These are included under other expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments

(i) Recognition

Settlement date accounting has been adopted to record transactions except FX transactions which are accounted at trade date.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Financial assets at fair value through profit or loss are initially recognized at fair value, while transaction costs are recognize as expense in Statement of profit or loss.

(ii) Classification

IFRS 9 contains new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.

For the Bank four classification categories for financial assets are applied:

- Financial assets measured at amortized cost (AC)
- Financial assets measured at fair value through OCI (FVOCI)
- Financial assets mandatory measured at fair value through profit or loss (FVTPL) and
- Financial assets designated measured at fair value through profit or loss (FVTPL).

A financial asset are measured at amortized cost if both of the following conditions are met and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A business model's objective can be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur. IFRS 9 gives the following examples of sales that may be consistent with the hold-to-collect business model:

- The sales are due to an increase in the credit risk of a financial asset;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent);
- The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

For the Bank, the sale and of more than 10% of the portfolio (carrying value) during a rolling 3 year period will potentially be considered 'more than infrequent' unless these sales are immaterial as a whole.

'Close to maturity' will be applied similarly to the guidance for held to maturity financial assets under IAS 39. A maturity less than 3 month can be seen as close to maturity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

A financial asset is classified as subsequently measured at FVOCI if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment–by–investment basis for each investment and essentially covers strategic interests that are not fully consolidated.

All other financial assets – i.e. financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or FVOCI – are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss. In addition, the Bank has the option at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. an 'accounting mismatch' – that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

A financial asset is classified into one of these categories on initial recognition.

Business model assessment

The Bank make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The following is considered as evidence when assessing which business model is relevant:

- How the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the Bank's key management personnel;
- How the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- How managers of the business are compensated – e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- The frequency, value and timing of sales in prior periods, the reasons for such sales, and its expectations about future sales activity and
- Whether sales activity and the collection of contractual cash flows are each integral or incidental to the business model ("hold-to-collect" versus "hold and sell" business model).

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Analysis of Contractual Cash Flow Characteristics

Once the Bank determines that the business model of a specific portfolio is to hold the financial assets to collect the contractual cash flows (or by both collecting contractual cash flows and selling financial assets), it must assess whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For this purpose, principal is defined as the fair value of the financial assets on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. This assessment is carried out on an instrument by instrument basis on the date of initial recognition of the financial asset.

In assessing whether the contractual cash flows are solely payments of principal and interest the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features
- Prepayment, extension terms
- Leverage features
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Contractually linked instruments.

Non-recourse loans - In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bsank typically considers the following information when making this judgement:

- Whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- The fair value of the collateral relative to the amount of the secured financial asset;
- The ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- Whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- The Bank's risk of loss on the asset relative to a full-recourse loan;
- The extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- Whether the Bank will benefit from any upside from the underlying assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Contractually linked instruments - Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- The contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- The underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- The exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

In 2018 IASB issued an IFRS 9 amendment regarding prepayment features with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract". In contrary, financial instruiments are measured mandatorily at FVTPL.

Modification of Time Value of Money and the Benchmark Test

Time value of money is the element of interest that provides consideration for only the passage of time (IFRS 9.B4.1.9A). It does not take into account other risks (credit, liquidity etc.) or costs (administrative etc.) associated with holding a financial asset.

In some cases, the time value of money element may be modified (imperfect). That would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case the Bank must assess the modification as to whether the contractual cash flows still represent solely payments of principal and interest, i.e. the modification term does not significantly alter the cash flows from a 'perfect' benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by concluding that an instrument, in the absence of such an assessment, will be measured at fair value. For the following main contractual features that can potentially modify the time value of money a benchmark test will be applied:

- Reset rate frequency does not match interest tenor
- Lagging indicator
- Smoothing clause
- Grace period
- Secondary market yield reference.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Reclassification

Financial assets are not reclassified after initial recognition, except in periods after the change of Bank's business model used for management of financial assets.

(iv) Modification

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (Note 3 (k) (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vii) Fair value measurement

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 fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if it is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the cost approach and the income approach.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

In some cases a single valuation technique will be appropriate, in other cases, multiple valuation techniques will be adequate to applied. If multiple valuation techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

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

(viii) Impairment

The Bank recognises loss allowances for expected credit losses (hereinafter: ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as “Stage 1” financial instruments.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as “Stage 2” financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. According to IFRS 9 when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit loss is always measured on a lifetime basis (Stage 3).

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

In Bank, as practical expedient, it is assumed that securities with investment grade should not be assessed to see whether the credit risk on a security has increased significantly. Here investment grade is defined by recognised external rating agencies as a rating between AAA-BBB (Standard's & Poor's, Fitch) and Aaa-Baa (Moody's). If information from recognised external rating agencies is not available the equivalent internal ratings can be mapped to the external ratings. This mapping should consider the market participant perspective taking into account all of the terms and conditions of the security. In cases where there is no external or internal rating the probability of default which is equivalent to investment grade can be used if available.

Measurement of Expected Credit Losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Significant judgements are required in applying the accounting requirements for measuring expected credit losses these are:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses;
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

For the Bank credit risk comes from the risk of suffering financial loss, should any of our customers, clients or market counterparties fail to fulfil their contractual obligations to us. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as, financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities, including trading portfolio assets and derivatives, as well as settlement balances with market counterparties and reverse repurchase agreements.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach which will be used for the purposes of measuring expected credit losses under IFRS 9.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for a security because of financial difficulties;
- Purchase or origination of financial assets with deep discount that reflects the incurred credit losses.

Significant Increase in Credit Risk

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative Criteria

The Bank uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios. For quantitative staging the Bank compares the lifetime PD curve at measurement data with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition assumptions are made about the structure of the PD curve. On the one hand, in the case of highly rated financial instruments, it is assumed that the PD curve will deteriorate over time. On the other hand, for low rated financial instruments, it is assumed that the PD curve will improve over time. The degree of improvement or deterioration depends on the level of the initial rating. In order to make the two curves comparable the PDs are scaled down to annualized PDs.

In general, a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250% although this amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued))

(k) Financial instruments (continued)

Qualitative Criteria

The Bank uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.

For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:

- External market indicators;
- Changes in contract terms;
- Changes to management approach;
- Expert judgement.

The assessment of significant increase in credit risk incorporates forward-looking information and will be performed on a quarterly basis at a deal level for all non-retail portfolios held by the Bank.

For retail portfolios, if the borrower meets one or more of the following criteria:

- Forbearance
- Expert judgement.

The assessment of significant increase in credit risk incorporates forward-looking information and will be performed on a monthly basis at a deal level for all retail portfolios held by the Bank.

Backstop

The financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. In some limited cases the presumption that financial assets which are more than 30 days past due are to be shown in Stage 2 is rebutted. Those cases relate to breaching the threshold of 30 days past due, a financial instrument will be considered to indicate a significant increase in credit risk. As this is rebuttable presumption, there will be no automatic transfer to stage 2, but the update of the customer's rating will be requested from the Credit Analyses/SE Risk Management Department. After rating review, quantitative criteria will determine whether transfer to stage 2 is necessary. If until next reporting period rating review is not performed, exposure will be transferred to stage 2.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Definition of Default and Credit-Impaired Assets

The Bank will define a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenants;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- It is becoming probable that the borrower will enter bankruptcy;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank expected loss calculations.

An instrument will be 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 a minimum of 3 months or longer for distressed restructured exposures. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor (D).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Probability of Default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. In general the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. The profile is based on historical observed data and parametric functions.

Different models have been used to estimate the default profile of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, local and regional governments, insurance companies and collective investment undertakings the default profile is generated using a transition matrix approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model;
- Corporate customers, project finance and financial institutions the default profile is generated using a parametric survival regression (Weibull) approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model;
- Retail mortgages and other retail lending the default profile is generated using parametric survival regression in competing risk frameworks. Forward looking information is incorporated into the probability of default using satellite models.

In the limited circumstances where some inputs are not fully available grouping, averaging and benchmarking of inputs is used for the calculation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Loss Given Default

Loss given default represents the Bank's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default. Loss given default is calculated on a 12-month or lifetime basis, where 12-month loss given default is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime loss given default is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Different models will be used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign the loss given default is found by using market implied sources. Market sources are external data on losses related to sovereign defaults (debts write offs during restructuring processes and similar).;
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies the loss given default is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the loss given default using the Vasicek model;
- Retail mortgages and other retail lending the loss given default is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory loss given default. Forward looking information is incorporated into the loss given default using various satellite models;
- In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

Exposure at Default

Exposure at default is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. Where relevant early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. Parameters calculated for regulatory purposes, e.g. LDG and CCF used for RWA calculation, are calculated including margins of conservatism. For IFRS9 purposes, same parameters are used but without margins of conservatism. In the limited circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

Discount Factor

In general for on balance sheet exposure which is not POCI the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Calculation

The expected credit loss is the product of PD, LGD and EAD times the probability not to default prior to the considered time period. The latter is expressed by the survivorship function S. This effectively calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by forward looking scenario.

Different models have been used to estimate the Stage 3 provisions of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings the Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate;
- Retail mortgages the Stage 3 provision is generated by calculating the discounted collateral realization value;
- Other retail lending the Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Forward Looking Information

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the probability of default, loss given default and exposure at default vary by category type. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate or a long run average growth rate until maturity. The impact of these economic variables on the probability of default, loss given default and exposure at default has been determined by performing statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

In addition to the base economic scenario, Raiffeisen Research also provide a best case and worst case scenario along with scenario weightings to ensure non-linearities are captured. The Bank has concluded that three scenarios or less appropriately captured non-linearity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected credit loss model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and cover any potential non-linearities and asymmetries within the Bank different portfolios.

Sensitivity analysis

The most significant assumptions affecting the expected credit loss allowance are as follows:

- Corporate portfolios;
  - Gross domestic product;
  - Unemployment rate;
  - Long term government bond rate;
  - Inflation rate;

- Retail portfolios;
  - Gross domestic product;
  - Unemployment rate;
  - Real estate prices.

Presentation

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve within equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(l) Cash and cash equivalents

For the purpose of preparation of Statement of Cash flows, cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and other cash equivalents.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(m) Financial assets and liabilities at fair value through profit and loss held for trading

Financial assets and liabilities at fair value through profit or loss held for trading are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised directly to profit or loss, All changes in fair value are recognised as part of Net gains/(losses) on financial assets held for trading in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity,
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

Derivatives are also classified as trading assets or liabilities, except for derivatives held for risk management purpose.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derivatives held for risk management purpose and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Bank designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. The Bank makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Hedge accounting principles are discussed below:

(i) Cash flow hedges

Cash flow hedge represents a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability and could affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

(ii) Fair value hedges – portfolio hedges

Fair value hedge represents a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The Bank entered in portfolio hedge i.e., macro fair value hedge.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derivatives held for risk management purpose and hedge accounting (continued)

The Banks measure change in the fair value of the hedged item that are attributable to the hedged risk. An effect is recognised in profit or loss. In the statement of financial position this amount is disclosed as asset or liability. The Bank measure change of fair value of hedge instrument, with recognition of change in fair value in profit or loss, Fair value of hedge instrument is recognised as asset or liability in the statement of financial position.

(o) Loans and receivables

Loans and advances in the statement of financial position include:

- Loans and advances measured at amortised cost: they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- Loans and advances mandatorily measured at FVTPL or designated as at FVTPL: these are measured at fair value with changes recognised immediately in profit or loss.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans that are disbursed in RSD and index-linked to RSD/EUR, RSD/CHF or RSD/USD exchange rates are revalued at the mid exchange rate of the National Bank of Serbia as at reporting date. The effects of such revaluation are included under Net gains/(losses) on foreign exchange differences and effects of foreign currency clause.

(p) Investment securities

The investment securities in the statement of financial position includes:

- Debt investment securities measured at amortised cost (Note 3 (k) (ii); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Investment securities (continued)

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (Note 3 (h)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(q) Intangible assets

Intangible assets are stated at cost decreased for accumulated amortisation and accumulated impairment losses. Intangible assets at reporting date include computer software licenses and other intangible assets.

Intangible assets are non-monetary assets, such as goodwill, patents, licences, concessions, trademarks, brands, accounting software, franchises, design and implementation of new processes or systems, intellectual property etc. For these assets, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity in the period longer than one year and that such inflows are above cost of asset.

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

Amortisation is calculated at the cost decreased for residual value. In case that residual value is not materially significant, it is not taken in consideration for calculation of amortization i.e., in that case, basis for calculation of amortization is not decreased for residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Recommended depreciation period for standard software is from 4 to 6 years and any deviation for this recommended period should be based on exactly documented details about the useful life. The estimated useful life for all intangible assets is five years and amortisation rate used is 20%.

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

All amounts expressed in thousand of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Property, plant and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Property and equipment of the Bank comprises land, buildings, equipment, investments in leased assets and asset under construction.

Initially items of property and equipment are measured at cost.

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

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.

For subsequent measurement of property and equipment, the Bank uses the cost model.

(ii) Subsequent expenses

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

(iii) Depreciation

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

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

Description	Estimated useful life (in years)	% p.a.
Buildings	25 - 50	2 – 4
IT equipment	3 - 5	20 - 33
Telephone switch-boards	5 - 15	6.67 - 20
Motor vehicles	6.4 - 7	14.3 – 15.6
Furniture and other equipment	5 - 10	10 – 20
Investment in leased buildings	5 - 10	10 - 20

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

Maintaining costs of property, plant and equipment are recognized as expenses as occurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognised net within other operating income in statement of profit or loss. Book value of derecognised assets is recegnized as other expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

The recoverable amount of an asset 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.

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

Impairment losses recognised 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 amortisation, if no impairment loss had been recognized.

(t) Deposits and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

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

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

From 1 January 2019, when the Bank designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- The expected changes in the fair value of the liability related to changes in the credit risk; with
- The impact on profit or loss of expected changes in fair value of the related instruments.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

Deposits, debt securities issued and subordinated liabilities in foreign currency are translated in dinars at middle foreign exchange rate effective at balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Provisions

A provision is recognised 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.

(v) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognises a loss allowance in accordance with IFRS 9 (Note 3 (k) (viii));

Financial guarantees and loan commitments are included within off-balance sheet items. Liabilities arising from financial guarantees and loan commitments are included within provisions.

(w) Equity

Equity of the Bank comprise initial shareholders investments, reserves and profit for the year.

Share capital of the Bank is formed from investment of shareholder in cash. Shareholder may not withdraw funds invested in the Bank's share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee benefits

Employee benefits comprise all types of considerations the Bank offers to its employees in exchange for the services rendered. Employee benefits include the following:

- Short-term employee benefits such as wages, salaries and social insurance contributions, paid vacations, paid sick leaves and bonuses (provided they are payable within 12 months upon the end of the accounting period) and non-monetary benefits (e.g. use of cars);
- Other long-term employee benefits, such as jubilee awards and other considerations based on the years of service unless they are fully payable within 12 months upon the end of the accounting period.

/i/ Short-term employee benefits

The Bank's short-term employee benefits comprised taxes and mandatory social insurance contributions, benefits related to unused employees' vacations and bonuses.

Short-term employee benefits in the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period should be recognized as expenses in that period.

In accordance with the regulations prevailing in the Republic of Serbia, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf, to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Accumulating compensated absences (annual leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

The Bank recognizes estimated bonus expenses when 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. Present obligation exists when the Bank has no other alternative but to settle obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee benefits (continued)

/ii/ Long-term employee benefits

Other Bank's long-term employee benefits comprised provisions for legally prescribed retirement benefits.

Other long-term employee benefits are recognized as expenses in the amount of the present value of liabilities arising from defined considerations as at the balance sheet date.

Pursuant to the Labour Law and Article 92 of the Bank's Rules of Procedure, the employees are entitled to retirement benefits in the amount of two salaries earned in the month preceding the month of retirement or in the amount or two average salaries paid in the Republic of Serbia according to the most recent published information of the Republic Statistical Office, whichever is more favourable for the vesting employee.

The Bank makes use of the best possible estimates of variables upon determining the total cost of provisions for employee retirement benefits. The basic assumptions underlying such estimates include the following:

For salaries denominated in EUR:

- Salary growth rate of 1%;
- Discount rate of 1.3%, representing the interest rate applied to corporate bonds.

For salaries denominated in RSD:

- Salary growth rate of 1% plus increase based on the inflation rate in 2020 - 2021;
- Discount rate of 4.8%, determined as the 12-month average of the value of securities of Ministry of Finance of Republic of Serbia to 10 years as increased by the liquidity cost over the longest period available (interest rates are to be changed monthly).

Post-employment benefits comprise defined contribution plans and defined benefit plans. The Bank has neither a defined contribution plan nor a defined benefit plan so as at December 31, 2019 the Bank had no identified liabilities in respect thereof. In addition, as there is no plan for employment termination prior to the common retirement date, there were no obligations for employment termination benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Use of estimates and judgements

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the given circumstances. Revisions to estimates are recognised prospectively.

Management makes estimates and assumptions that relates to the future. Actual results may differ from these estimates. Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described below.

- Establishing the criteria for ECL calculation (Note 3 (k) (viii))

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Significant judgements are required in applying the accounting requirements for measuring expected credit losses these are:
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses, where integral part of models are forward looking information;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses;
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

- Fair values (Note 3 (k) (vii) and 5)

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

For determination of fair value of treasury bills issued by Ministry of Finance of the Republic of Serbia, which are included in trading book, the Bank applies alternative approach for valuation. Alternative approach implies determination of net present value of discounted future cash flows for related position and exposure, where discounted interest rate is determined as last available/realized interest rate on public auction for treasury bills for the same or similar remaining maturity.

- Contingencies (Note 3 (v))

For the purpose recognition and measurement of contingencies, the management defines key assumptions about the likelihood and magnitude of an outflow of resources.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

In its business operations, the Bank is or may be exposed to the following types of risks:

- Credit risk, which represents a possibility of occurrence of adverse effects on the Bank's financial result and capital due to a default of the borrower towards the Bank, including the following:
  - Settlement/delivery risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital arising from unsettled transactions or due to non-execution of liabilities of the counterparty against free delivery transactions on the agreed settlement/delivery date;
  - Counterparty risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital arising from the counterparty's failure to fulfil his part of the deal in a transaction before final settlement of cash flows of the transaction;
  - Residual risk, which represents the likelihood of occurrence of adverse effects on the bank's financial result and capital due to the fact that the credit risk mitigation techniques are less efficient than anticipated or their implementation does not have sufficient influence on reduction of risks to which the Bank is exposed;
  - Dilution risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital due to reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor;
  - FX component of credit risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital due to deterioration of the debtor's financial capacity caused by change in foreign exchange rates;
  - Interest rate induced credit risk, which presents the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the deterioration of the borrower's financial ability caused by the change in interest rates;
  - Concentration risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital due to the concentration of the Bank's exposure towards the same or similar source of risk origination (large exposures, economic sectors, geographic regions, product type etc. and credit mitigation instruments, including currency and maturity mismatch between large exposures and related credit protection instruments).

- Market risks, which represent the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the changes in value of balance sheet and off-balance sheet items of the Bank resulting from the price trends in the market. These risks include:
  - Foreign exchange risk, which represents the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the changes in values of foreign exchange rates;
  - Price risk on debt and equity securities, which represents risk from changes in the value of these securities due to changes of interest rates and includes specific and general price risks:
    - o Specific price risk is risk from change of a security price due to the factors related to its issuer,
    - o General price risk is risk from change of a security price due to change of general levels of interest rates/price of those securities;

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Introduction and overview (continued)

- Commodity risk, which represents the possibility of occurrence of adverse effects on the Bank's financial result and capital due to changes of prices of commodities listed in the positions of the Bank;

- Interest rates risk, which represents the possibility of occurrence of adverse effects on the Bank's financial result and capital as a result of changes in the level of interest rates;

- Liquidity risk, which represents the possibility of occurrence of adverse effects on the Bank's financial result and capital as a result of the bank's inability to fulfil its due liabilities, due to the following:
  - Maturity mismatches between assets and liabilities;
  - Withdrawals of the existing funding sources and/or impossibility to obtain new funding sources (funding liquidity risk);
  - Aggravated conversion of assets into liquid funds due to market disturbances (market liquidity risk);

- Operational risk, which represents the possibility of occurrence of adverse effects on the Bank's financial result and capital due to omissions in the work of employees, inappropriate internal procedures and processes, inadequate management of information and other systems, as well as due to other unforeseeable external events. The definition includes the legal risk and excludes strategic and reputation risks;

- Country risks, which represent the possibility of occurrence of adverse effects on the Bank's financial result and capital as a result of inability to collect receivables from debtors due to the reasons arising from political, economic and social circumstances in the country of origin of that entity, including:
  - Political and economic risk, which implies the possibility of occurrence of losses due to the inability of the Bank to collect receivables as a result of constraints defined by the regulations of government and other authorities of the debtor's home country, as well as general and systemic environment in that country;
  - Transfer risk, which implies the possibility of occurrence of losses due to the inability of the Bank to collect receivables expressed in the currency which is not official currency of the debtor's home country, arising from the constraints in payments of liabilities toward creditors from other countries in certain currency which are defined by the regulations of government and other authorities of the debtor's home country;

- Compliance risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital due to incompliance of the Bank's operations with laws and other regulations, standards of operations, procedures governing prevention of money laundering and terrorism financing, as well as other enactments governing operations; compliance risk especially includes risk from sanctions imposed by a regulatory body, risk from financial loss, as well as the reputation risk, which represents the possibility of occurrence of adverse effects on the Bank's financial result and capital due to creation of a negative public image that affects market positioning of the Bank;

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Introduction and overview (continued)

- The risk of money laundering and terrorist financing is the risk of having adverse effects on the financial result, equity or reputation of the Bank due to the usage of the Bank (direct or indirect usage of the business relationship with the Bank, transactions, services or products of the Bank) for money laundering and/or terrorist financing;
- Strategic risk, which represents the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the lack of appropriate strategies and policies and their inadequate implementation, as well as due to changes in the environment in which the bank operates or the lack of appropriate response by the bank to such changes;
- Investment risks, which include risks of the Bank's investment into other legal entities and fixed assets.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), Credit Committee, as well as Operational Risk Committee, which are responsible for developing and monitoring Bank risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Bank. The Bank's Audit Committee is assisted in by Internal Audit, Internal Audit undertakes both, regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

In measuring credit risk at the level of borrowers, the Bank assesses the risk of possible losses due to deterioration in the creditworthiness of borrowers. Credit risk represents a possibility of occurrence of adverse effects on the Bank's financial result and capital due to a default of the borrower towards the Bank, including the following:

- Settlement/delivery risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital arising from unsettled transactions or due to non-execution of liabilities of the counterparty against free delivery transactions on the agreed settlement/delivery date;
- Counterparty risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital arising from the counterparty's failure to fulfil his part of the deal in a transaction before final settlement of cash flows of the transaction;
- Residual risk, which represents the likelihood of occurrence of adverse effects on the bank's financial result and capital due to the fact that the credit risk mitigation techniques are less efficient than anticipated or their implementation does not have sufficient influence on reduction of risks to which the Bank is exposed;
- Dilution risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital due to reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor;
- FX component of credit risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital due to deterioration of the debtor's financial capacity caused by change in foreign exchange rates;
- Interest rate induced credit risk, which presents the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the deterioration of the borrower's financial ability caused by the change in interest rates;
- Concentration risk, which represents the possibility of occurrence of adverse effects on the bank's financial result and capital due to the concentration of the Bank's exposure towards the same or similar source of risk origination (debtors and/or groups of related debtors, economic sectors, geographic regions, etc.,).

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Bank applies the Corporate Rating System which has been developed/harmonized by RBI Group. The corporate Rating system considers quantitative and qualitative parameters for the economic customer rating.

The Corporate Rating system includes following grades:

- 1C - minimal risk;
- 2A, 2B, 2C - excellent credit standing;
- 3A, 3B, 3C - very good credit standing;
- 4A, 4B, 4C - good credit standing;
- 5A, 5B, 5C - sound credit standing;
- 6A, 6B, 6C - acceptable credit standing;
- 7A, 7B, 7C - marginal credit standing;
- 8A, 8B, 8C - weak credit standing;
- 9A, 9B, 9C - very weak credit standing and
- 10 – default/bankruptcy or similar proceedings.

Grade 10 is applied only for clients which are not able to settle their obligations (default).

Beside Corporate Rating system, separate rating systems are used for small companies, local and administrative bodies, financial institutions, insurance companies, project financing, as well as scoring model for micro and retail clients.

Below is disclosed connection between rating grades for Corporate and SMB clients and level of credit quality, used for disclosure purposes:

Credit quality	High quality	Medium quality	Low quality	Default
Corporate clients				
Rating	1C - 4C	5A - 7C	8A - 9C	10
PD range	0.0003 - 0.00406	0.00552 - 0.06204	0.08469 - 0.42503	1
Financial Institutions				
Rating	1A - 4C	5A - 7C	8A - 9C	10
PD range	0.00001 - 0.00408	0.00547 - 0.06292	0.08546 - 0.43581	1
SMB				
Rating	1C – 4C	5A - 7C	8A – 9C	10
PD range	0.0003 - 0.00406	0.00551 - 0.06274	0.08522 - 0.51353	1
Project Finance				
Rating	6.1 – 6.2	6.3	6.4	6.5
PD range	0.00229 - 0.00446	0.01641	0.19074	1
Insurances				
Rating	0.5 – 2.5	3.0 – 3.5	4.0 – 4.5	5.0
PD range	0.0003 - 0.0008	0.00157 - 0.01338	0.0265 - 0.08516	1
Sovereign				
Rating	A1 - B2	B3 - B4	B5 - C	10
PD range	0.0 - 0.00033	0.00103 - 0.00608	0.0249 - 0.09872	1
Private individuals (housing loans, cash loans, visa and visa revolving cards)				
Rating	0.5 – 2.5	3.0 – 3.5	4.0 – 4.5	5.0
PD range	0.0-0.027	0.027-0.1	0.1-0.18	1

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries and countries. 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, Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary. The exposure to any borrower, including banks and brokers is further restricted by sub-limits covering on-and-off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Limits defined in the Bank cover all exposures. Entering into transactions where no limits are established is not allowed and every limit excess has to be reported immediately to the relevant body.

Credit-related commitments

Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to thaw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations 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. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The total exposure to credit risk as at 31.12.2019 is presented below:

-	Bank assets exposed to credit risk			Bank asset not exposed to credit risk	Total
	Gross exposure	Accumulated allowances for impairment / provisions	Net exposure		
	1	2	3 (1-2)	4	5 (3+4)
Cash and balances with central bank	21,565,954	4	21,565,950	48,339,312	69,905,262
Receivables arising from derivatives	-	-	-	21,442	21,442
Securities	53,180,306	6,801	53,173,505	1,328,938	54,502,443
Loans and receivables to banks and other financial institutions	13,551,669	738	13,550,931	(319)	13,550,612
Loans and receivables to other customers	176,712,158	4,938,276	171,773,882	(189,163)	171,584,719
Receivables from derivatives held for hedging against the risk	-	-	-	152,072	152,072
Investments in subsidiaries	1,293,551	-	1,293,551	-	1,293,551
Intangible assets	-	-	-	731,144	731,144
Property, plant and equipment	-	-	-	6,172,623	6,172,623
Current tax assets	11,682	-	11,682	-	11,682
Deferred tax assets	-	-	-	266,268	266,268
Other assets	464,333	80,425	383,908	327,411	711,319
Balance sheet exposure	**266,779,653**	**5,026,244**	**261,753,409**	**57,149,728**	**318,903,137**
Issued guaranties and warranties	54,081,069	287,021	53,794,048	-	53,794,048
Contingent liabilities	101,660,727	371,852	101,288,875	5,952,907	107,241,782
Other off-balance sheet exposures*	-	-	-	781,649,518	781,649,518
Off-balance sheet exposure	**155,741,796**	**658,873**	**155,082,923**	**787,602,425**	**942,685,348**
Total exposure	**422,521,449**	**5,685,117**	**416,836,332**	**844,752,153**	**1,261,588,485**

* Other off-balance sheet exposures mostly relates to the Bank's evidence of received collaterals.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The total exposure to credit risk as at 31.12.2018 is presented below:

	Bank assets exposed to credit risk				
l	Gross exposure	Accumulated allowances for impairment / provisions	Net exposure	Bank asset not exposed to credit risk	Total
	1	2	3 (1-2)	4	5 (3+4)
Cash and balances with central bank	21,942,490	6	21,942,484	49,941,635	71,884,119
Receivables arising from derivatives	-	-	-	16,141	16,141
Securities	50,345,601	17,538	50,328,063	141	50,328,204
Loans and receivables to banks and other financial institutions	11,572,147	14,093	11,558,054	50	11,558,104
Loans and receivables to other customers	156,779,637	6,391,910	150,387,727	110	150,387,617
Receivables from derivatives held for hedging against the risk	-	-	-	77,362	77,362
Investments in subsidiaries	1,028,323	-	1,028,323	-	1,028,323
Intangible assets	-	-	-	647,494	647,494
Property, plant and equipment	-	-	-	4,790,135	4,790,135
Deferred tax assets	-	-	-	306,786	306,786
Other assets	775,433	73,216	702,217	197,832	900,049
Balance sheet exposure	**242,443,631**	**6,496,763**	**235,946,868**	**55,977,466**	**291,924,334**
Issued guaranties and warranties	47,378,047	277,704	47,100,343	-	47,100,343
Contingent liabilities	80,879,971	208,737	80,671,234	4,211,450	84,882,684
Other off-balance sheet exposures*	-	-	-	511,117,357	511,117,357
Off-balance sheet exposure	**128,258,018**	**486,441**	**127,771,577**	**515,328,807**	**643,100,384**
Total exposure	**370,701,649**	**6,983,204**	**363,718,445**	**571,306,273**	**935,024,718**

* Other off-balance sheet exposures mostly relates to the Bank's evidence of received collaterals.

Regarding regional exposure, loans and advances and off-balance sheet items are placed almost exclusively on the territory of the Republic of Serbia. The Bank did not lend to the debtors from high-risk areas, so that the Bank is not exposed to concentration risk arising from investments in high-risk countries.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Transfer of loans and receivables to customers between stages in 2019 is presented below:

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**207,763,732**	**26,843,533**	**6,732,834**	**241,340,099**
New loans granted	135,793,227	5,300,659	675,534	141,769,420
Decrease / repayment	(101,197,849)	(12,856,773)	(3,587,330)	(117,641,952)
Transfer from stage 1	(4,343,694)	3,341,665	1,002,029	-
Transfer from stage 2	5,064,601	(5,882,894)	818,293	-
Transfer from stage 3	103,365	115,248	(218,613)	-
Balance as at 31 December 2019	**243,183,382**	**16,861,438**	**5,422,747**	**265,467,567**

Change in allowance for impairment of loans and receivables to to customers between stages in 2019 is presented below:

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**580,706**	**573,727**	**5,324,918**	**6,479,351**
New loans granted	474,522	338,940	1,455,154	2,268,616
Decrease / repayment	(358,342)	(360,841)	(3,009,274)	(3,728,457)
Transfer from stage 1	(34,139)	17,756	16,383	-
Transfer from stage 2	8,533	(103,198)	94,665	-
Transfer from stage 3	674	8,490	(9,164)	-
Balance as at 31 December 2019	**671,954**	**474,874**	**3,872,682**	**5,019,510**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Data on sectorial and geographical concentration of balance sheet assets and off balance sheet items are shown below:

31.12.2019																	
	Belgrade Region 1			Belgrade Region 2			North Serbia Region			South Serbia Region							
Balance sheet exposures	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	POCI	Total unimpaired receivables - Stage 1 & 2	Total impaired receivables - Stage 3	Loans mandatory at FVTPL	Total exposures, gross
Retail receivables	18,468,880	2,512,950	866,185	15,246,706	1,796,732	789,251	9,149,263	1,195,100	507,372	9,737,901	1,081,299	616,618	248,486	59,188,829	2,779,426	-	62,216,743
Housing loans	7,612,957	1,185,517	222,243	5,858,380	828,607	188,267	2,856,833	615,407	112,564	1,848,142	308,469	63,957	-	21,114,312	587,031	-	21,701,343
Consumer and cash loans	8,510,055	364,203	475,507	7,375,275	326,752	438,220	4,897,082	169,498	268,862	6,064,897	256,384	357,436	-	27,964,145	1,540,026	-	29,504,171
Transaction loans and credit cards	1,764,541	660,420	135,357	1,705,018	374,607	148,966	1,189,378	194,115	105,061	1,610,109	242,192	165,367	-	7,740,380	554,750	-	8,295,131
Other receivables	581,327	302,810	33,078	308,033	266,766	13,798	205,970	216,080	20,885	214,753	274,254	29,858	248,486	2,369,992	275,166	-	2,716,098
Non-retail receivables	27,242,325	1,690,311	249,066	68,820,710	2,898,974	301,123	19,667,338	4,633,707	867,549	18,001,929	1,025,663	1,009,995	-	143,980,955	2,427,735	-	146,408,689
Agriculture, forestry and fishing	662,837	27,081	9	1,117,390	47,755	3,273	3,462,934	26,556	11	745,899	75,330	15	-	6,165,783	3,308	-	6,169,090
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	7,662,488	492,933	99,030	7,830,360	1,152,885	174,329	5,618,356	436,105	25,399	7,695,016	465,265	882,238	-	31,353,408	1,180,996	-	32,534,404
Electricity, gas, steam and air conditioning supply	1	-	6	-	2	-	845	-	-	17,680	86	-	-	18,615	6	-	18,621
Construction	1,457,284	120,834	43,384	2,885,900	258,376	111	706,711	79,860	137,743	646,501	59,108	4,159	-	6,214,573	185,397	-	6,399,970
Wholesale and retail trade, repair of motor vehicles and motorcycles	9,261,535	759,955	52,687	14,440,108	953,679	82,434	7,827,689	3,822,650	33,698	7,312,970	283,263	12,989	-	44,661,848	181,808	-	44,843,657
Transporting and storage, Accommodation and food service activities, Information and communication	482,246	48,820	10,564	2,030,865	143,913	6,919	707,271	47,912	1,839	515,244	39,734	16,576	-	4,016,005	35,899	-	4,051,903
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	1,149,875	198,752	13,917	3,364,067	320,510	2,847	289,565	210,227	514,046	183,914	72,903	6,083	-	5,789,812	536,894	-	6,326,706
Other	6,566,059	41,936	29,469	37,152,020	21,854	31,210	1,053,967	10,397	154,813	884,705	29,974	87,935	-	45,760,911	303,427	-	46,064,338
Receivables from other clients	43,140,262	22,549	-	14,953,084	270	38,040	8	-	-	6	-	-	-	58,116,180	38,040	-	58,154,220
Total exposure	88,851,467	4,225,810	1,115,251	99,020,500	4,699,758	1,128,414	28,816,609	5,828,807	1,374,921	27,739,836	2,106,962	1,626,613	248,486	261,285,964	5,245,201	-	266,779,652

* Stage 1 – Unimpaired exposures without significant detorition of credit risk
** Stage 2 – Unimpaired exposures with significant detorition of credit risk
*** Stage 3 – Impaired exposures

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

31.12.2019																	
	Belgrade Region 1			Belgrade Region 2			North Serbia Region			South Serbia Region							
Off-balance sheet exposures	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	POCI	Total unimpaired receivables - Stage 1 & 2	Total impaired receivables - Stage 3	Loans mandatory at FVTPL	Total exposures, gross
Retail receivables	2,489,422	1,066,552	31,286	2,287,896	561,195	29,141	1,648,672	295,600	22,227	2,161,823	303,652	29,104	-	10,814,812	111,757	-	10,926,570
Housing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	2,474,182	1,066,552	31,286	2,286,109	61,195	28,553	1,648,642	295,600	22,227	2,158,829	303,652	29,104	-	10,794,761	111,169	-	10,905,931
Other receivables	15,240	-	-	1,787	-	588	30	-	-	2,994	-	-	-	20,051	588	-	20,639
Non-retail receivables	29,617,751	1,464,141	153,750	64,889,601	2,064,686	542,476	17,851,491	1,073,114	5,718	21,347,579	643,112	978	-	138,951,475	702,920	-	139,654,395
Agriculture, forestry and fishing	57,381	4,929	-	41,015	6,045	-	467,343	2,675	-	249,915	1,532	-	-	830,835	-	-	830,835
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	5,813,178	314,495	1	14,868,458	177,883	23,381	10,881,515	418,129	1,504	11,476,371	338,123	200	-	44,288,152	25,086	-	44,313,238
Electricity, gas, steam and air conditioning supply	-	-	-	41,028	-	-	219	-	-	-	319	-	-	41,566	-	-	41,566
Construction	3,050,263	47,873	150,916	10,038,763	1,014,894	48,393	1,573,278	11,658	-	5,968,239	151,956	-	-	21,856,924	199,309	-	22,056,233
Wholesale and retail trade, repair of motor vehicles and motorcycles	12,830,313	811,360	1	20,716,164	512,158	467,819	3,632,147	633,842	-	2,869,005	103,187	-	-	42,108,176	467,820	-	42,575,996
Transporting and storage, Accommodation and food service activities, Information and communication	1,264,760	5,293	315	6,762,225	131,066	468	370,573	1,710	315	260,788	44,678	490	-	8,841,093	1,587	-	8,842,680
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	3,155,160	274,992	2,176	2,570,693	182,666	-	250,558	-	-	217,379	-	260	-	6,651,448	2,435	-	6,653,883
Other	3,446,696	5,199	341	9,851,255	39,974	2,415	675,858	5,100	3,899	305,882	3,317	28	-	14,333,281	6,683	-	14,339,964
Receivables from other clients	2,251,794	12,742	-	2,893,767	2,527	-	-	-	-	-	-	-	-	5,160,831	-	-	5,160,831
Total exposure	34,358,967	2,543,435	185,036	70,071,264	2,628,408	571,617	19,500,163	1,368,714	27,945	23,509,402	946,764	30,082	-	154,927,118	814,677	-	155,741,796

* Stage 1 – Unimpaired exposures without significant detorition of credit risk
** Stage 2 – Unimpaired exposures with significant detorition of credit risk
*** Stage 3 – Impaired exposures

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

31.12.2018																	
	Belgrade Region 1			Belgrade Region 2			North Serbia Region			South Serbia Region							
Balance sheet exposures	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	POCI	Total unimpaired receivables - Stage 1 & 2	Total impaired receivables - Stage 3	Loans mandatory at FVTPL	Total exposures, gross
Retail receivables	16,763,363	2,962,447	764,984	13,566,261	2,190,511	604,100	8,155,309	1,568,580	396,750	8,788,908	1,473,812	435,558	-	55,469,191	2,201,392	-	57,670,583
Housing loans	7,635,899	1,910,712	404,055	5,777,343	1,475,758	271,388	2,878,964	1,164,118	163,122	1,992,126	925,730	140,148	-	23,760,650	978,713	-	24,739,363
Consumer and cash loans	7,447,807	354,701	290,690	6,141,524	304,630	260,803	4,141,600	189,749	180,810	5,192,663	272,035	211,837	-	24,044,709	944,140	-	24,988,849
Transaction loans and credit cards	1,674,227	696,441	63,046	1,645,865	405,992	69,243	1,131,115	210,390	50,071	1,602,600	266,388	80,872	-	7,633,018	263,232	-	7,896,250
Other receivables	5,430	593	7,193	1,529	4,131	2,666	3,630	4,323	2,747	1,519	9,659	2,701	-	30,814	15,307	-	46,121
Non-retail receivables	23,437,038	2,188,131	220,939	61,624,293	4,430,214	587,420	17,233,336	5,737,788	2,528,601	13,201,597	137939	1,156,456	-	127,990,336	4,493,416	75,240	132,558,992
Agriculture, forestry and fishing	40,919	2	6	715,225	3,442	3	2,000,428	629	25	792,965	248	4	-	3,553,858	38	-	3,553,896
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	6,117,229	1,983,933	1,096	7,881,382	1,105,132	438,072	5,627,534	1,016,091	15,291	4,678,110	9,589	1,044,829	-	28,419,000	1,499,288	-	29,918,288
Electricity, gas, steam and air conditioning supply	4	-	11	1	-	1	11	-	1	-	52	-	-	68	13	-	81
Construction	947,186	1,355	21,825	1,090,212	107,337	519	583,075	65,901	1,133,181	472,149	16,850	1,616	-	3,284,065	1,157,141	75,240	4,516,446
Wholesale and retail trade, repair of motor vehicles and motorcycles	7,653,719	136,008	161,706	10,023,677	767,205	103,266	7,567,078	4,562,683	38,359	5,671,977	86,035	42,453	-	36,468,382	345,784	-	36,814,166
Transporting and storage, Accommodation and food service activities, Information and communication	433,667	553	3,381	4,127,018	120,654	4,550	757,231	17,786	767	435,407	218	21,351	-	5,892,534	30,049	-	5,922,583
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	1,320,674	9,385	21,561	1,772,885	81,543	15,573	149,567	1,099	1,132,986	345,845	2,423	29	-	3,683,421	1,170,149	-	4,853,570
Other	6,923,640	56,895	11,353	36,013,893	2,244,901	25,436	548,412	73,599	207991	805,144	22,524	46,174	-	46,689,008	290,954	-	46,979,962
Receivables from other clients	36,989,844	849,808	-	9,032,155	5,304,204	38,040	5	-	-	-	-	-	-	52,176,016	38,040	-	52,214,056
Total exposure	77,190,245	6,000,386	985,923	84,222,709	11,924,929	1,229,560	25,388,650	7,306,368	2,925,351	21,990,505	1,611,751	1,592,014	-	235,635,543	6,732,848	75,240	242,443,631

* Stage 1 – Unimpaired exposures without significant detorition of credit risk
** Stage 2 – Unimpaired exposures with significant detorition of credit risk
*** Stage 3 – Impaired exposures

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

31.12.2018																	
	Belgrade Region 1			Belgrade Region 2			North Serbia Region			South Serbia Region							
Off-balance sheet exposures	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	Stage1*	Stage 2**	Stage 3***	POCI	Total unimpaired receivables - Stage 1 & 2	Total impaired receivables - Stage 3	Loans mandatory at FVTPL	Total exposures, gross
Retail receivables	2,265,761	1,106,867	21,610	2,103,373	567,428	16,856	1,442,705	298,664	11,470	2,020,479	315,651	18,088	-	10,120,928	68,024	-	10,188,952
Housing loans	1,575	-	-	-	-	-	-	-	-	-	-	-	-	1,575	-	-	1,575
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	2,261,822	1,106,867	21,610	2,096,258	567,428	16,856	1,442,675	298,664	11,470	2,020,479	315,651	18,088	-	10,109,844	68,024	-	10,177,868
Other receivables	2,364	-	-	7,115	-	-	30	-	-	-	-	-	-	9,509	-	-	9,509
Non-retail receivables	25,627,465	442,192	153,905	48,604,133	2,554,130	245,867	12,819,848	160,654	1,958	25,061,739	95,445	1,704	-	115,365,606	403,434	-	115,769,040
Agriculture, forestry and fishing	30,655	-	-	131,370	12,758	-	252,225	28,386	-	255,003	1,312	-	-	711,709	-	-	711,709
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	4,678,961	240,279	-	12,028,051	105,689	122,387	6,838,379	82,299	298	16,066,572	25,025	550	-	40,065,255	123,235	-	40,188,490
Electricity, gas, steam and air conditioning supply	-	-	-	41,238	-	-	-	-	-	-	353	-	-	41,591	-	-	41,591
Construction	2,662,353	3,036	151,287	11,127,198	776,614	48,893	1,314,015	11,300	-	5,286,346	33,467	325	-	21,214,329	200,505	-	21,414,834
Wholesale and retail trade, repair of motor vehicles and motorcycles	12,960,219	82,167	12	12,830,839	416,553	74,366	3,692,530	36,895	1,200	2,683,432	7,109	-	-	32,709,744	75,578	-	32,785,322
Transporting and storage, Accommodation and food service activities, Information and communication	903,986	3,316	2,503	4,255,630	67,517	199	391,083	1,207	310	358,033	25,874	-	-	6,006,646	3,012	-	6,009,658
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	3,013,350	113,247	-	1,421,043	156,294	-	193,058	407	-	174,333	-	-	-	5,071,732	-	-	5,071,732
Other	1,377,941	147	103	6,768,764	1,018,705	22	138,558	160	150	238,020	2,305	829	-	9,544,600	1,104	-	9,545,704
Receivables from other clients	231,790	45,695	-	192,268	1,830,272	-	-	-	-	-	-	-	-	2,300,025	-	-	2,300,025
Total exposure	28,125,016	1,594,754	175,515	50,899,774	4,951,830	262,723	14,262,553	459,318	13,428	27,082,218	411,096	19,792	-	127,786,559	471,458	-	128,258,017

* Stage 1 – Unimpaired exposures without significant detorition of credit risk
** Stage 2 – Unimpaired exposures with significant detorition of credit risk
*** Stage 3 – Impaired exposures

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Sector concentration, including information on the structure of NPLs is shown below. Under the non performing receivables, the Bank considers receivables from debtors who meet some of the "default" indicators, stated below in the table "Default Indicators" (according to the internal directives of RBI Group). Data on problematic balance sheet assets and off-balance sheet items are shown below:

	31.12.2019						
Balance sheet receivables	Total exposures, gross	Accumulated allowances for impairment	Impaired (stage 3) exposures, gross	Out of which: forborne exposures	Accumulated allowances for impairment of impaired (stage 3) exposures	Impaired (stage 3) exposures in %	Collateral value for impaired (stage 3) exposures*
	1	2	3	4	5	6 (3/1)	7
Retail receivables	62,216,743	2,525,963	2,956,973	-	1,773,329	4.8	551,742
Housing loans	21,701,343	485,674	587,031	-	352,755	-	402,593
Consumer and cash loans	29,504,171	1,257,748	1,540,026	-	908,328	-	2,954
Transaction loans and credit cards	8,295,131	550,490	554,750	-	391,054	-	480
Other receivables	2,716,098	232,051	275,166	-	121,192	-	145,715
Non-retail receivables	146,408,689	2,458,135	2,427,735	-	2,064,937	1.7	210,675
Agriculture, forestry and fishing	6,169,090	27,874	3,308	-	1,902	-	-
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	32,534,404	1,110,299	1,180,996	-	1,017,078	-	103,611
Electricity, gas, steam and air conditioning supply	18,621	41	6	-	4	-	-
Construction	6,399,970	163,469	185,397	-	136,813	-	66,351
Wholesale and retail trade, repair of motor vehicles and motorcycles	44,843,657	278,861	181,808	-	145,606	-	21,294
Transporting and storage, Accommodation and food service activities, Information and communication	4,051,903	46,115	35,899	-	22,323	-	-
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	6,326,706	543,456	536,894	-	511,658	-	-
Other	46,064,338	288,020	303,427	-	229,553	-	19,419
Receivables from other clients	58,154,220	35,418	38,040	-	34,418	-	-
Total exposure	**266,779,652**	**5,019,516**	**5,422,748**	**-**	**3,872,684**	**2.0**	**762,417**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

	31.12.2019						
Off-balance sheet receivables	Total exposures, gross	Accumulated allowances for impairment	Impaired (stage 3) exposures, gross	Out of which: forborne exposures	Accumulated allowances for impairment of impaired (stage 3) exposures	Impaired (stage 3) exposures in %	Collateral value for impaired (stage 3) exposures*
	1	2	3	4	5	6 (3/1)	7
Retail receivables	10,926,570	125,568	111,757	-	65,341	1.0	695
Housing loans	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-
Transaction loans and credit cards	10,905,931	120,539	111,169	-	64,937	-	107
Other receivables	20,639	5,029	588	-	404	-	588
Non-retail receivables	139,654,395	532,680	702,920	-	258,019	0.5	492,313
Agriculture, forestry and fishing	830,835	2,673	-	-	-	-	-
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	44,313,238	73,782	25,086	-	1,248	-	23,381
Electricity, gas, steam and air conditioning supply	41,566	38	-	-	-	-	-
Construction	22,056,233	262,523	199,309	-	178,207	-	10,429
Wholesale and retail trade, repair of motor vehicles and motorcycles	42,575,996	140,026	467,820	-	70,332	-	458,503
Transporting and storage, Accommodation and food service activities, Information and communication	8,842,680	21,322	1,587	-	1,201	-	-
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	6,653,883	11,967	2,435	-	1,642	-	-
Other	14,339,964	20,349	6,683	-	5,389	-	-
Receivables from other clients	5,160,831	623	-	-	-	-	-
Total exposure	**155,741,796**	**658,871**	**814,677**	**-**	**323,360**	**0.5**	**493,008**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Balance sheet receivables	31.12.2018 Total exposures, gross	Accumulated allowances for impairment	Impaired (stage 3) exposures, gross	Impaired (stage 3) exposures, gross: Out of which: forborne exposures	Accumulated allowances for impairment of impaired (stage 3) exposures	Impaired (stage 3) exposures in %	Collateral value for impaired (stage 3) exposures*
	1	2	3	4	5	6 (3/1)	7
Retail receivables	57,670,583	2,087,900	2,201,391	451,814	1,299,052	3.8	462,032
Housing loans	24,739,362	853,840	978,713	396,934	537,918	4.0	458,039
Consumer and cash loans	24,988,849	858,272	944,139	54,880	573,875	3.8	3,789
Transaction loans and credit cards	7,896,251	346,058	263,233	-	176,206	3.3	204
Other receivables	46,120	29,730	15,306	-	11,053	33.2	-
Non-retail receivables	132,558,992	4,341,153	4,493,402	3,944,279	3,991,450	3.4	397,116
Agriculture, forestry and fishing	3,553,897	12,816	39	-	24	0.0	-
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	29,918,289	1,365,360	1,499,288	1,451,349	1,262,944	5.0	194,387
Electricity, gas, steam and air conditioning supply	81	8	13	-	8	16.0	-
Construction	4,516,446	1,073,478	1,157,125	1,138,422	1,059,251	25.6	100,776
Wholesale and retail trade, repair of motor vehicles and motorcycles	36,814,168	403,958	345,785	200,034	290,675	0.9	74,533
Transporting and storage, Accommodation and food service activities, Information and communication	5,922,582	56,486	30,049	20,778	22,765	0.5	-
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	4,853,569	1,125,442	1,170,149	1,132,776	1,105,532	24.1	1,218
Other	46,979,961	303,605	290,954	920	250,251	0.6	26,202
Receivables from other clients	52,214,056	67,714	38,040	-	34,417	0.1	-
Total exposure	**242,443,631**	**6,496,763**	**6,732,833**	**4,396,093**	**5,324,919**	**2.8**	**859,148**

* Weighted Collateral Value

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Off-balance sheet receivables	31.12.2018						
	Total exposures, gross	Accumulated allowances for impairment	Impaired (stage 3) exposures, gross	Impaired (stage 3) exposures, gross – Out of which: forborne exposures	Accumulated allowances for impairment of impaired (stage 3) exposures	Impaired (stage 3) exposures in %	Collateral value for impaired (stage 3) exposures*
	1	2	3	4	5	6 (3/1)	7
Retail receivables	10,188,952	83,172	68,023	-	21,160	0.7	97
Housing loans	1,575	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-
Transaction loans and credit cards	10,177,869	80,845	68,023	-	21,160	0.7	97
Other receivables	9,509	2,327	-	-	-	-	-
Non-retail receivables	115,769,040	394,343	403,435	119	249,037	0.4	112,268
Agriculture, forestry and fishing	711,709	1,722	-	-	-	-	-
Mining, Manufacturing, Water supply; sewerage; waste management and remediation activities	40,188,490	98,893	123,235	-	42,853	0.3	59,208
Electricity, gas, steam and air conditioning supply	41,591	52	-	-	-	-	-
Construction	21,414,834	212,492	200,505	-	179,694	0.9	10,440
Wholesale and retail trade, repair of motor vehicles and motorcycles	32,785,322	55,111	75,578	119	23,648	0.2	42,620
Transporting and storage, Accommodation and food service activities, Information and communication	6,009,658	10,960	3,012	-	2,648	0.1	-
Real estate activities, professional, scientific and technical activities, Administrative and support service activities, arts	5,071,731	8,642	-	-	-	-	-
Other	9,545,705	6,471	1,105	-	194	-	-
Receivables from other clients	2,300,025	8,925	-	-	-	-	-
Total exposure	128,258,018	486,441	471,458	119	270,197	0.4	112,365

* Weighted Collateral Value

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Impairment policy

The Bank recognises loss allowances for expected credit losses (hereinafter: ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is not identified, allowance for impairment for such financial instrument is calculated as 12-month ECL. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. In case of significant increase of credit risk since initial recognition, allowance for impairement for such financial instrument is calculated as life-time ECL. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit loss is always measured on a lifetime basis.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

In Bank, as practical expedient, it is assumed that securities with investment grade should not be assessed to see whether the credit risk on a security has increased significantly. Here investment grade is defined by recognised external rating agencies as a rating between AAA-BBB (Standard's & Poor's, Fitch) and Aaa-Baa (Moody's). If information from recognised external rating agencies is not available the equivalent internal ratings can be mapped to the external ratings. This mapping should consider the market participant perspective taking into account all of the terms and conditions of the security. In cases where there is no external or internal rating the probability of default which is equivalent to investment grade can be used if available.

Measurement of Expected Credit Losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Expected credit losses are calculated as sum of marginal losses at balance sheet date. Marginal losses

Marginal losses are derived from risk parameters used for assessment of exposures and losses in case of default and marginal probabilities of defaults for each period. Calculation of expected credit losses is based on four parameters:

- The probability of default (PD), which represents the likelihood of a borrower defaulting on its financial obligation over defined period;
- The exposure at default (EAD), which is based on the amounts the Bank expects to be owed at the time of default, taking in the account repayment of principal and interest, as well as expected use of loan commitments funds;
- The loss given default (LGD), which represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is based on difference between contracted cash flows and expected cash flows, taking in the account cash flows from realisation of collateras. Usually, LGD is presented as percentage of EAD; and
- Discount rate is used in the expected credit loss calculation. Diccount rate is the effective interest rate effective at the initial recognition date or an approximation thereof.

In the process of stimation of ECL, the Bank is not required to identify all possible scenarios. However, the Bank is obliged to assess risks or probability that credit loss will arise, even if probability of loss occurance is very low.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

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

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for a security because of financial difficulties;
- Purchase or origination of financial assets with deep discount that reflects the incurred credit losses.

Identification of impaired financial assets in practice is performed through alignment of default definition and definition of credit-impaired financial assets. The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- The Bank consider that is highly unlikely that borrower will settle its obligaton in fully, without taking in consideration collection through collateral realisation; or
- The borrower is more than 90 days past due on its contractual payments.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

In accordance with internal procedures, following default indicators are defined for non-retail exposures:

1. Bankruptcy;
2. Direct write-off;
3. Claim writtem-off against provison;
4. Loan / facility called;
5. Restructuring;
6. Interest calculation cancellation;
7. Claim sold with loss;
8. Overdue payment;
9. License withdrawn;
10. Payment moratorium;
11. Expected economic loss;
12. Cross default.

In accordance with internal procedures, following default indicators are defined for retail exposures:

1. Loss over 90 days for any material credit obligation;
2. Confirmed cases of credit fraud which were committed by a customer of the bank will lead to default recognition for all active accounts. Threshold would not be considered;
3. The death of the borrower – the event will lead to default recognition for all active accounts. Threshold would not be considered;
4. A restructuring of an obligation if it results in NPV decrease at least by 2.5%, as weel as if the exposures with more than 60 days overdue are restructured ("distressed restructuring");
5. Borrower is in default in settlement of its obligation toward state, other lenders or employees for material amount (more than quarterly average in normal circumstances, with exemption of specific months or transactions, with clear explanation);
6. Lost job – in this case, all active accounts would be qualitied as default. Threshold would not be considered;
7. Cross default – default status would be marked on facility level. For example, if client has two cash loans and one of them is in deault (e.g. overdue obligation for more than 90 days for material amount), the other one will be marked as default, too;
8. Other.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank expected loss calculations.

An instrument will be 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 a minimum of 3 months or longer for distressed restructured exposures. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

For financial instruments in Stage 3 i.e for credit-imapaired financial assets at balance sheet date (except POCI), the Bank measures expected credit loss as difference between gross carrying value of financial assets and present value of expected cash flows discounted at original effective interest rate. Each difference is recognized in profit or loss. For collateralized financial assets, this assessment includes expected cash flows from collateral realization decreased for costs related to obtaining of collateral and its realisation. At least two scenarios are should be used for calculation of expected credit loss (even if only one collection strategy is probable), where each scenario should be probability weighted. All relevant scenarios should be considered (not only the most probable scenarios). In the process of ECL calculation, these scenarios which are assessed as highly unlikely should not be taken in the calculation.

Significant Increase in Credit Risk

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative Criteria

The Bank uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios. For quantitative staging the Bank compares the lifetime PD curve at measurement data with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition assumptions are made about the structure of the PD curve. On the one hand, in the case of highly rated financial instruments, it is assumed that the PD curve will deteriorate over time. On the other hand, for low rated financial instruments, it is assumed that the PD curve will improve over time. The degree of improvement or deterioration depends on the level of the initial rating. In order to make the two curves comparable the PDs are scaled down to annualized PDs.

In general, a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250% although this amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products.

The threshold value of 250% is made time dependent. The value of 250% is valid if the remainder of the maturity is one year or less. For maturities greater than one year, the value is subject to an adjustment. This is necessary to offset a maturity effect. For example, for greater residual maturities a rating downgrade after a year since origination is less likely to trigger a stage 2, than for smaller residual maturities. This is because default probabilities converge over time towards the long-term average default probability. This behaviour of the default probability leads to that initial PD and current PD are built from default probabilities which become very similar after a certain period of time, regardless of the original starting point of the default probability. This means that stark differences of the default probabilities at the beginning diminish over time and a 250% increase becomes less likely to be “achieved” the longer maturities play a role in the calculation of PD.

To offset this maturity effect, the staging threshold of 250% is adjusted for different maturities and for longer maturities, PD threshold becomes smaller (a minimum is 150%).

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

For financial instruments, which do not possess a credit rating at reporting date, stage 2 applies. There are no exceptions from this rule. For financial instruments, which do not possess a credit rating at origination, stage 2 applies. A grace period of 6 months is allowed to assign a rating to a facility in case at the exact date of the origination no rating was found.

Qualitative Criteria

The Bank uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.

For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:

- External market indicators;
- Changes to management approach;
- Changes in contract terms;
- Expert judgement;
- Default over 30 days.

The assessment of significant increase in credit risk incorporates forward-looking information and will be performed on a quarterly basis at a deal level for all non-retail portfolios held by the Bank.

For retail portfolios, if the borrower meets one or more of the following criteria:

- Forbearance
- Expert judgement.

The assessment of significant increase in credit risk incorporates forward-looking information and will be performed on a monthly basis at a deal level for all retail portfolios held by the Bank.

Determination of credit risk – exceptions

In the process of credit risk determination, the Bank applies following exceptions:

- Low credit risk exception: financial instrument for which is determined to have low credit risk at the reporting date will be assigned to stage 1. The Banks applies this exemption only for sovereign bonds with one-year default rates below 0.5% (including information of future movements);
- Newly orginated assets: All new assets will be assigned to stage 1 when reported for the first time;
- Asset owned by the Bank: Since deterioration of credit risk is not possible for these assets, these assets will be assigned to stage 1.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor (D).

Probability of Default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. In general the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. The profile is based on historical observed data and parametric functions.

Different models have been used to estimate the default profile of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, local and regional governments, insurance companies and collective investment undertakings the default profile is generated using a transition matrix approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model;
- Corporate customers, project finance and financial institutions the default profile is generated using a parametric survival regression (Weibull) approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model;

General form for PD parameter function is:

$$pd(t)=exp(a+b*f(pd(1))+(c+d*g(pd(1)))*log(t))$$

where f(x) and g(x) are logoritam functions.

Parameters are assessed by using of non-linear minimal quadrant. Change in rating and related one-year default rate are dependance variable.

IRB approach is obtained for model used and models are validated annualy. Annual validation is subject of regulatory approval and is supervised by ECB and OeNB. Rating and related probability of default are unbiased. Any regulatory margin of conservatism is dropped.

- Retail mortgages and other retail lending the default profile is generated using parametric survival regression in competing risk frameworks. Forward looking information is incorporated into the probability of default using satellite models.

In the limited circumstances where some inputs are not fully available grouping, averaging and benchmarking of inputs is used for the calculation.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Loss Given Default (LGD)

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty and product. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Different models are used to estimate the LGD and these can be grouped into the following categories:

- Sovereign: the LGD is found by using market implied sources. Market sources are external data on losses related to sovereign defaults (debts write offs during restructuring processes and similar).;
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies: the LGD is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the LGD using the Vasicek model;
- Retail mortgages and other retail lending: the LGD is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory LGD. Forward looking information is incorporated into the LGD using various satellite models;
- In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

Exposure at Default (EAD)

EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 months or lifetime basis. Where relevant early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. Parameters calculated for regulatory purposes, e.g. LDG and CCF used for RWA calculation, are calculated including margins of conservatism. For IFRS9 purposes, same parameters are used but without margins of conservatism. In the limited circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

Discount Factor

In general, for on balance sheet exposure which is not POCI, the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Calculation

The expected credit loss is the product of PD, LGD and EAD times the probability not to default prior to the considered time period. The latter is expressed by the survivorship function S. This effectively calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by forward looking scenario.

Different models have been used to estimate the Stage 3 provisions of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings the Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate;
- Retail mortgages the Stage 3 provision is generated by calculating the discounted collateral realization value;
- Other retail lending the Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Forward Looking Information

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Incorporaion of forward looking information into impairment calculation is done via the macroeconomic models, which leads to a direct adjustment of the default probabilities. Forward looking information is incorporated via the macroeconomic input parameters of the macroeconomic model. Since the Bank will not know future realizations of these macroeconomic parameters with certainty, the inherent uncertainty makes it necessary to consider a scenario calculation.

In addition to the base economic scenario, the Bank also provide a best case and worst case scenario along with scenario weightings to ensure non-linearities are captured. The Bank has concluded that three scenarios appropriately captured non-linearity. The base scenario has an attached weight of 50% in the calculation. The latter two scenarios are attached with a weight of 25%.

"Raiffeisen Research" delivers a set of values for the relevant macroeconomic variables for each scenario. The set of values is provided quarterly and covers a three-year period. For time horizon over 3 years, in order to project economic variables for the rest of the product life, a medium reversion approach was used - which means that economic variables converge to long-term average or average growth rate to maturity.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The impact of these economic variables on the probability of default, loss given default and the exposure at default are determined using statistical regression to find out what the impact of the mentioned variable had historically on the probability of default, loss given default and the exposure at default

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and cover any potential non-linearities and asymmetries within the Bank different portfolios.

Sensitivity analysis

The most significant assumptions affecting the expected credit loss allowance are as follows:

- Corporate portfolios;
  - Gross domestic product;
  - Unemployment rate;
  - Long term government bond rate;
  - Inflation rate;

- Retail portfolios;
  - Gross domestic product;
  - Unemployment rate;
  - Real estate prices.

In addition, in order to incorporate forward looking information, the Bank developed the “credit clock” approach, which is used to identify the current position in a credit cycle as well as a trend. Depending on the current position of EBITDA and Net debt over a median and a trend, the credit clock delivers a risk assessment (low, medium, high). Based on the assessment on the position in a credit cycle, parametars are adjusted, but only for these variations which are not explained by macroeconomic model (to avoid double counting with respect to the macro model) and only if these adjustments improve macro model performance.

Data on gross and net balance sheet assets and off-balance sheet exposures to credit risk by sectors and categories of exposure, according to the method of impairment determination and the value of collateral are shown below is shown in the table below:

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

	31.12.2019										
	Unimpaired (stage 1&2()						Accumulated allowances for impairment			Value of collateral*	
Balance sheet exposures	Without significant detoration of credit risk	significant detoration of credit risk	Impaired (stage 3)	Poci	Measured at FVTPL	Total exposures, gross	Individually estimated	Collectively estimated	Total exposures, net	Securing unimpaired exposures	Securing impaired exposures
By sector											
Retail receivables	**52,602,751**	**6,586,080**	**2,779,426**	**248,486**	**-**	**62,216,743**	**1,773,329**	**752,631**	**59,690,781**	**19,907,768**	**551,742**
Housing loans	18,176,312	2,938,000	587,031		-	21,701,343	352,755	132,918	21,215,670	17,842,233	402,593
Consumer and cash loans	26,847,309	1,116,836	1,540,026		-	29,504,171	908,328	349,419	28,246,423	25,931	2,954
Transaction loans and credit cards	6,269,047	1,471,334	554,750		-	8,295,131	391,054	159,436	7,744,641	26,512	480
Other receivables	**1,310,083**	**1,059,910**	**97,619**	**248,486**	**-**	**2,716,098**	**121,192**	**110,858**	**2,484,047**	**2,013,092**	**145,715**
Non-retail receivables	**133,732,301**	**10,248,654**	**2,427,734**		**-**	**146,408,689**	**2,064,938**	**393,197**	**143,950,556**	**51,789,213**	**210,675**
Large enterprises	85,501,676	8,119,948	1,870,335		-	95,491,959	1,654,873	218,845	93,618,241	26,545,593	61,219
Small and medium-sized enterprises	9,498,965	2,075,331	284,221		-	11,858,517	222,274	56,039	11,580,205	3,338,652	126,948
Micro enterprises and entrepreneurs	5,680,915	53,375	273,178		-	6,007,468	187,791	118,227	5,701,451	564,664	22,508
Financial institutions	33,050,745	-	-		-	33,050,745	-	86	33,050,659	21,340,304	-
Other	-	-	-		-	-	-	-	-	-	-
Receivables from other clients	**58,093,361**	**22,819**	**38,040**		**-**	**58,154,220**	**34,418**	**1,000**	**58,118,802**	**-**	**-**
Total exposures	244,428,413	16,857,553	5,245,200	248,486	-	266,779,652	3,872,685	1,146,828	261,760,139	71,696,981	762,417
By category of receivables											
Performing exposures	244,409,878	16,861,335	27,449	72,726	-	261,365,819	1,749	1,146,829	260,217,241	71,696,981	2,662
Out of which: forborne	67.975	358.471	377	23,773	-	450,597	19	25,058	425,520	255,902	-
Non-performing exposures	18,535	-	5,219,538	175,760	-	5,413,834	3,870,936	-	1,542,897	-	759,755
Out of which: forborne	18.535	-	1,966,022	80,540	-	2,065,096	1,730,144	-	334,951	-	246,275
Total exposures	**244,428,413**	**16,857,553**	**5,245,201**	**248,486**	**-**	**266,779,653**	**3,872,685**	**1,146,829**	**261,760,138**	**71,696,981**	**762,417**

* Weighted Collateral Value

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Off-balance sheet exposures	31.12.2019 Unimpaired (stage 1&2) without significant detoration of credit risk	significant detoration of credit risk	Impaired (stage 3)	Poci	Measured at FVTPL	Total exposures, gross	Accumulated allowances for impairment Individually estimated	Collectively estimated	Total exposures, net	Value of collateral* Securing unimpaired exposures	Securing impaired exposures
By sector											
Retail receivables	**8,587,813**	**2,226,999**	**111,757**	**-**	**-**	**10,926,570**	**65,341**	**60,228**	**10,801,001**	**68,358**	**695**
Housing loans	-	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	8,567,762	2,226,999	111,169	-	-	10,905,931	64,937	55,602	10,785,391	51,889	107
Other receivables	**20,051**	**-**	**588**	**-**	**-**	**20,639**	**404**	**4,626**	**15,610**	**16,469**	**588**
Non-retail receivables	**133,706,422**	**5,245,052**	**702,920**	**-**	**-**	**139,654,394**	**258,018**	**274,663**	**139,121,715**	**23,640,148**	**492,314**
Large enterprises	118,339,987	4,800,975	689,600	-	-	123,830,562	248,184	249,561	123,332,818	16,432,210	492,314
Small and medium-sized enterprises	5,539,514	412,747	2,348	-	-	5,954,609	2,000	5,667	5,946,942	667,996	-
Micro enterprises and entrepreneurs	2,100,853	216	10,972	-	-	2,112,041	7,834	19,307	2,084,900	143,804	-
Financial institutions	7,726,068	31,114	-	-	-	7,757,182	-	128	7,757,055	6,396,138	-
Other	-	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**5,145,562**	**15,269**	**-**	**-**	**-**	**5,160,831**	**-**	**623**	**5,160,208**	**-**	**-**
Total exposures	**147,439,797**	**7,487,320**	**814,677**	**-**	**-**	**155,741,795**	**323,359**	**335,514**	**155,082,924**	**23,708,506**	**493,009**
By category of receivables											
Performing exposures	147,439,797	7,487,321	814,678	-	-	155,741,796	48	335,514	154,596,120	23,708,507	493,009
Out of which: forborne	64,037	265,817	-	-	-	329.854	-	10,514	319,340	34,561	-
Non-performing exposures	-	-	810,113	-	-	810.113	323.310	-	486,803	-	493,009
Out of which: forborne	-	-	-	-	-	-	-	-	-	-	-
Total exposures	**147,439,797**	**7,487,321**	**814,678**	**-**	**-**	**155,741,796**	**323,359**	**335,514**	**155,082,923**	**23,708,507**	**493,009**

* Weighted Collateral Value

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Balance sheet exposures	31.12.2018 Unimpaired (stage 1&2() without significant detoration of credit risk	significant detoration of credit risk	Impaired (stage 3)	Measured at FVTPL	Total exposures, gross	Accumulated allowances for impairment Individually estimated	Collectively estimated	Total exposures, net	Value of collateral* Securing unimpaired exposures	Securing impaired exposures
By sector										
Retail receivables	**47,273,841**	**8,195,349**	**2,201,391**	**-**	**57,670,583**	**1,299,052**	**788,848**	**55,582,682**	**17,906,962**	**462,032**
Housing loans	18,284,331	5,476,318	978,713	-	24,739,362	537,918	315,922	23,885,522	17,862,552	458,039
Consumer and cash loans	22,923,595	1,121,115	944,139	-	24,988,849	573,875	284,397	24,130,577	25,268	3,789
Transaction loans and credit cards	6,053,807	1,579,211	263,233	-	7,896,251	176,206	169,852	7,550,193	19,133	204
Other receivables	**12,108**	**18,705**	**15,306**	**-**	**46,120**	**11,053**	**18,677**	**16,390**	**9**	**-**
Non-retail receivables	**115,496,278**	**12,494,072**	**4,493,403**	**75,240**	**132,558,992**	**3,991,450**	**349,703**	**128,217,840**	**44,474,598**	**397,117**
Large enterprises	68,024,821	9,658,995	4,139,757	75,240	81,898,813	3,742,509	215,723	77,940,581	19,251,131	326,340
Small and medium-sized enterprises	10,467,965	523,975	223,725	-	11,215,666	161,170	20,873	11,033,623	3,317,051	57,716
Micro enterprises and entrepreneurs	4,758,328	84,526	129,921	-	4,972,774	87,771	112,936	4,772,067	456,941	13,061
Financial institutions	32,245,164	2,226,576	-	-	34,471,740	-	171	34,471,569	21,449,475	-
Other	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**46,022,004**	**6,154,012**	**38,040**	**-**	**52,214,056**	**34,417**	**33,297**	**52,146,342**	**-**	**-**
Total exposures	**208,792,124**	**26,843,434**	**6,732,833**	**75,240**	**242,443,631**	**5,324,919**	**1,171,848**	**235,946,868**	**62,381,560**	**859,149**
By category of receivables										
Performing exposures	208,792,109	26,843,434	69,917	-	235,705,460	18,107	1,171,848	234,515,505	62,381,560	9,623
Out of which: forborne	111,315	921,581	7,411	-	1,040,307	505	41,503	998,299	451,031	1,496
Non-performing exposures	15	-	6,662,916	75,240	6,738,171	5,306,812	-	1,431,359	-	849,524
Out of which: forborne	15	-	4,388,682	75,240	4,463,937	3,815,659	-	648,278	-	510,013
Total exposures	**208,792,124**	**26,843,434**	**6,732,833**	**75,240**	**242,443,631**	**5,324,919**	**1,171,848**	**235,946,868**	**62,381,560**	**859,147**

* Weighted Collateral Value

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Off-balance sheet exposures	31.12.2018 Unimpaired (stage 1&2) without significant detoration of credit risk	significant detoration of credit risk	Impaired (stage 3)	Measured at FVTPL	Total exposures, gross	Accumulated allowances for impairment Individually estimated	Collectively estimated	Total exposures, net	Value of collateral* Securing unimpaired exposures	Securing impaired exposures
By sector										
Retail receivables	**7,832,319**	**2,288,610**	**68,023**	**-**	**10,188,952**	**21,160**	**62,013**	**10,105,781**	**50,766**	**97**
Housing loans	1,575	-	-	-	1,575	-	-	1,575	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	7,821,235	2,288,610	68,023	-	10,177,869	21,160	59,686	10,097,024	41,257	97
Other receivables	**9,509**	**-**	**-**	**-**	**9,509**	**-**	**2.327**	**7,182**	**9,509**	**-**
Non-retail receivables	**112,113,185**	**3,252,421**	**403,434**	**-**	**115,769,040**	**249,037**	**145,307**	**115,374,695**	**19,329,605**	**112,268**
Large enterprises	98,609,304	2,025,434	395,622	-	101,030,360	247,091	120,179	100,663,090	12,110,845	112,268
Small and medium-sized enterprises	5,321,027	208,026	1,008	-	5,530,061	71	3,642	5,526,347	798,142	-
Micro enterprises and entrepreneurs	1,794,050	503	6,804	-	1,801,356	1,875	20,993	1,778,488	84,076	-
Financial institutions	6,388,804	1,018,458	-	-	7,407,263	-	493	7,406,770	6,336,542	-
Other	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**424,059**	**1,875,967**	**-**	**-**	**2,300,025**	**-**	**8,925**	**2,291,101**	**-**	**-**
Total exposures	**120,369,563**	**7,416,997**	**471,458**	**-**	**128,258,018**	**270.197**	**216,244**	**127,771,577**	**19,380,371**	**112,365**
By category of receivables										
Performing exposures	120,369,563	7,416,997	12,366	-	127,798,926	2,418	216,244	127,580,264	19,380,371	-
Out of which: forborne	271,490	23	-	-	271,513	-	4,518	266,995	12,150	-
Non-performing exposures	-	-	459,092	-	459,092	267,779	-	191,313	-	112,365
Out of which: forborne	-	-	119	-	119	-	-	119	-	-
Total exposures	**120,369,563**	**7,416,997**	**471,458**	**-**	**128,258,018**	**270,197**	**216,244**	**127,771,577**	**19,380,371**	**112,365**

* Weighted Collateral Value

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Data on exposure to credit risk by sectors and categories of claims, according to the impairment status and number of days of delay are shown below:

31.12.2019.														
Balance sheet exposures	Unimpaired exposures (stage 1 & 2) – past due status					Impaired exposures (stage 3) – past due status					Measured at FVTPL	Total unimpaired exposures (stage 1&2)	Total impaired exposures (stage 3)	Total exposures, gross
	Not past due	Up to 30 days	31 - 60 days	61 - 90 days	Over 90 days	Not past due	Up to 90 days	91 - 180 days	181 - 360 days	Over 360 days				
By sector														
Retail receivables	40,397,083	17,689,927	978,814	170,836	23,110	172,912	1,489,590	393,596	292,272	608,601	-	59,259,770	2,956,971	62,216,741
Housing loans	15,749,332	5,009,080	280,507	54,786	20,606	51,464	423,080	41,460	15,661	55,365	-	21,114,311	587,030	21,701,341
Consumer and cash loans	17,528,145	9,839,512	524,712	69,509	2,268	55,533	682,320	236,102	177,164	388,906	-	27,964,146	1,540,025	29,504,171
Transaction loans and credit cards	5,852,351	1,744,981	110,167	32,868	14	32,260	183,599	81,541	98,184	159,166	-	7,740,381	554,750	8,295,131
Other receivables	1,267,255	1,096,354	63,428	13,673	222	33,655	200,591	34,493	1,263	5,164	-	2,440,932	275,166	2,716,098
Non-retail receivables	140,052,586	3,867,293	20,590	21,878	18,610	1,024,664	705,565	117,140	183,033	397,332	-	143,980,957	2,427,734	146,408,691
Large enterprises	92,880,976	722,114	-	-	18,535	919,210	605,139	2,098	41,059	302,829	-	93,621,625	1,870,335	95,491,960
Small and medium-sized enterprises	11,536,412	37,398	-	486	-	79,303	32,403	52,114	83,276	37,125	-	11,574,296	284,221	11,858,517
Micro enterprises and entrepreneurs	2,640,536	3,051,698	20,590	21,392	75	26,151	68,023	62,928	58,698	57,378	-	5,734,291	273,178	6,007,469
Financial institutions	32,994,662	56,083	-	-	-	-	-	-	-	-	-	33,050,745	-	33,050,745
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	58,116,180	-	-	-	-	38,040	-	-	-	-	-	58,116,180	38,040	58,154,220
Total exposure	238,565,849	21,557,220	999,404	192,714	41,720	1,235,616	2,195,155	510,736	475,305	1,005,933	-	261,356,907	5,422,745	266,779,652
By category of receivables														
Performing exposures	238,565,848	21,557,221	999,404	192,713	23,184	8,199	19,246	1	-	3	-	261,338,370	27,449	261,365,819
Out of which: forborne	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	-	-	-	-	18,535	1,227,418	2,175,910	510,736	475,305	1,005,930	-	18,535	5,395,299	5,413,834
Out of which: forborne	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total exposures	238,565,849	21,557,220	999,404	192,714	41,720	1,235,616	2,195,155	510,736	475,305	1,005,933	-	261,356,907	5,422,745	266,779,652

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Off-balance sheet exposures	31.12.2019. Unimpaired exposures (stage 1 & 2) – past due status: Not past due	Up to 30 days	31 - 60 days	61 - 90 days	Over 90 days	Impaired exposures (stage 3) – past due status: Not past due	Up to 30 days	91 - 180 days	181 - 360 days	Over 360 days	Measured at FVTPL	Total unimpaired exposures (stage 1&2)	Total impaired exposures (stage 3)	Total exposures, gross
By sector														
Retail receivables	9,908,725	840,888	51,618	13,581	-	39,075	58,218	14,464	-	-	-	10,814,812	111,757	10,926,569
Housing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	9,888,674	840,888	51,618	13,581	-	38,487	58,218	14,464	-	-	-	10,794,761	111,169	10,905,930
Other receivables	20,051	-	-	-	-	588	-	-	-	-	-	20,051	588	20,639
Non-retail receivables	129,871,678	9,079,779	18	-	-	545,365	4,671	2,318	51	150,516	-	138,951,475	702,921	139,654,396
Large enterprises	117,290,937	5,850,026	-	-	-	539,084	-	-	-	150,516	-	123,140,963	689,600	123,830,563
Small and medium-sized enterprises	5,851,633	100,628	-	-	-	348	-	2,000	-	-	-	5,952,261	2,348	5,954,609
Micro enterprises and entrepreneurs	1,701,012	400,039	18	-	-	5,933	4,671	318	51	-	-	2,101,069	10,973	2,112,042
Financial institutions	5,028,096	2,729,086	-	-	-	-	-	-	-	-	-	7,757,182	-	7,757,182
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	5,160,831	-	-	-	-	-	-	-	-	-	-	5,160,831	-	5,160,831
Total exposure	144,941,234	9,920,667	51,636	13,581	-	584,440	62,889	16,782	51	150,516	-	154,927,118	814,678	155,741,796
By category of receivables														
Performing exposures	144,941,235	9,920,667	51,636	13,581	-	3,606	959	-	-	-	-	154,927,119	4,565	154,931,684
Out of which: forborne	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	-	-	-	-	-	580,835	61,930	16,782	51	150,516	-	-	810,114	810,114
Out of which: forborne	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total exposures	144,941,234	9,920,667	51,636	13,581	-	584,440	62,889	16,782	51	150,516	-	154,927,118	814,678	155,741,796

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Data on exposure to credit risk by sectors and categories of claims, according to the impairment status and number of days of delay are shown below:

31.12.2018.														
	Unimpaired exposures (stage 1 & 2) – past due status					Impaired exposures (stage 3) – past due status								
Balance sheet exposures	Not past due	Up to 30 days	31 - 60 days	61 - 90 days	Over 90 days	Not past due	Up to 30 days	91 - 180 days	181 - 360 days	Over 360 days	Measured at FVTPL	Total unimpaired exposures (stage 1&2)	Total impaired exposures (stage 3)	Total exposures, gross
By sector														
Retail receivables	**37,046,968**	**16,893,294**	**1,213,303**	**315,623**	**3**	**120,996**	**1,048,288**	**377,200**	**257,796**	**397,108**	**-**	**55,469,191**	**2,201,388**	**57,670,583**
Housing loans	16,240,368	6,794,261	573,224	152,797	-	54,043	737,769	137,842	16,572	32,486	-	23,760,650	978,712	24,739,362
Consumer and cash loans	15,489,661	7,946,576	497,152	111,321	-	40,048	263,756	168,441	158,107	313,786	-	24,044,710	944,138	24,988,848
Transaction loans and credit cards	5,286,130	2,152,457	142,923	51,505	2	11,611	46,763	70,912	83,117	50,829	-	7,633,017	263,232	7,896,249
Other receivables	**30,809**	**-**	**4**	**-**	**1**	**15,294**	**-**	**5**	**-**	**7**	**-**	**30,814**	**15,306**	**46,120**
Non-retail receivables	**125,261,860**	**2,679,810**	**25,591**	**10,192**	**12,898**	**2,672,326**	**205,850**	**95,638**	**65,956**	**1,453,631**	**75,240**	**127,990,351**	**4,493,401**	**132,558,992**
Large enterprises	77,308,987	374,814	-	-	15	2,552,549	199,574	44,260	7,929	1,335,444	75,240	77,683,816	4,139,756	81,898,812
Small and medium-sized enterprises	10,937,039	49,413	4,243	1,245	-	108,485	-	22,373	12,834	80,033	-	10,991,940	223,725	11,215,665
Micro enterprises and entrepreneurs	2,544,094	2,255,583	21,348	8,947	12,883	11,292	6,276	29,005	45,193	38,154	-	4,842,855	129,920	4,972,775
Financial institutions	34,471,740	-	-	-	-	-	-	-	-	-	-	34,471,740	-	34,471,740
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**52,176,016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38,040**	**-**	**52,176,016**	**38,040**	**52,214,056**
Total exposure	**213,455,305**	**19,573,104**	**1,238,894**	**325,815**	**12,901**	**2,793,322**	**1,254,138**	**472,838**	**323,752**	**1,888,779**	**1,104,780**	**234,606,019**	**6,732,829**	**242,443,631**
By category of receivables														
Performing exposures	213,455,305	19,573,104	1,238,894	325,815	12,886	32,353	36,316	54	118	1,077	1,029,540	234,606,004	69,918	235,705,462
Out of which: forborne	527,965	412,399	67,838	24,695	-	-	7,411	-	-	-	-	1,032,897	7,411	1,040,308
Non-performing exposures	-	-	-	-	15	2,760,970	1,217,824	472,786	323,634	1,887,702	75,240	15	6,662,916	6,738,171
Out of which: forborne	-	-	-	-	15	2,566,855	526,144	115,175	11,504	1,169,004	75,240	15	4,388,682	4,463,937
Total exposures	**213,455,305**	**19,573,104**	**1,238,894**	**325,815**	**12,901**	**2,793,322**	**1,254,138**	**472,838**	**323,752**	**1,888,779**	**1,104,780**	**234,606,019**	**6,732,829**	**242,443,631**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

31.12.2018.														
Off-balance sheet exposures	Unimpaired exposures (stage 1 & 2) – past due status					Impaired exposures (stage 3) – past due status					Measured at FVTPL	Total unimpaired exposures (stage 1&2)	Total impaired exposures (stage 3)	Total exposures, gross
	Not past due	Up to 30 days	31 - 60 days	61 - 90 days	Over 90 days	Not past due	Up to 30 days	91 - 180 days	181 - 360 days	Over 360 days				
By sector														
Retail receivables	9.019.480	1.023.930	58.418	19.101	-	38.534	16.999	12.490	-	-	-	10.120.929	68.023	10.188.952
Housing loans	1.575	-	-	-	-	-	-	-	-	-	-	1.575	-	1.575
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	9.008.396	1.023.930	58.418	19.101	-	38.534	16.999	12.490	-	-	-	10.109.845	68.023	10.177.868
Other receivables	9.509	-	-	-	-	-	-	-	-	-	-	9.509	-	9.509
Non-retail receivables	114.828.401	536.452	134	243	374	250.264	1.532	-	351	151.287	-	115.365.604	403.434	115.769.040
Large enterprises	100.456.004	178.733	-	-	-	243.136	1.200	-	-	151.287	-	100.634.737	395.623	101.030.360
Small and medium-sized enterprises	5.524.977	4.075	-	-	-	819	-	-	189	-	-	5.529.052	1.008	5.530.060
Micro enterprises and entrepreneurs	1.440.157	353.644	134	243	374	6.309	332	-	162	-	-	1.794.552	6.803	1.801.355
Financial institutions	7.407.263	-	-	-	-	-	-	-	-	-	-	7.407.263	-	7.407.263
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	2.300.025	-	-	-	-	-	-	-	-	-	-	2.300.025	-	2.300.025
Total exposure	126,147,906	1,560,382	58,552	19,344	374	288,798	18,531	12,490	351	151,287	-	127,786,558	471,457	128,258,018
By category of receivables														
Performing exposures	126,147,908	1,560,382	58,552	19,345	374	11,125	1,241	-	-	-	-	127,786,561	12,366	127,798,927
Out of which: forborne	271,513	-	-	-	-	-	-	-	-	-	-	271,513	-	271,513
Non-performing exposures	-	-	-	-	-	277,674	17,290	12,490	351	151,287	-	-	459,092	459,092
Out of which: forborne	-	-	-	-	-	119	-	-	-	-	-	-	119	119
Total exposures	126,147,906	1,560,382	58,552	19,344	374	288,798	18,531	12,490	351	151,287	-	127,786,558	471,457	128,258,018

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Loans with renegotiated terms

The Bank does not have Loans and receivables to banks and other financial institutions with renegotiated terms, nor investment securities with renegotiated terms.

Restructuring process for legal entity is initiated/implemented if the Bank estimates that the financial difficulties of the debtor are temporary i.e., if bank estimates that restructuring will provide a long-term sustainability of the borrowers' business. In the process of restructuring, the Bank shall be guided by the following principles:

- The activities are tailored in such a manner as to ensure survival of the company and not endanger liquidity plan (i.e., exposure reduction should be investigated carefully and applied only if it does not compromise the business plan);
- Design a financial restructuring plan: focus both towards stabilising immediate cash flow and towards performing balance sheet improvements (such as non-core asset disposal, equity in-crease, liability restructuring including intra-group loans and off-balance items), with a medium to long term purpose of achieving improved and sustainable EBITDA i.e., improve debt repayment capacity, as well as company value;
- Involve external consultants in complex cases, covering various aspects of restructuring efforts: IBR, legal, tax and operational advise and/or supervision, design and implementation of reorganisation/ restructuring scheme);
- Cooperate with other Financiers in order to keep the customer alive and overcome the temporary difficulties: the cooperation needs should be considered case by case (establishment of re-financing through syndicate, pooling collaterals, determine supporting vs, hostile banks, assigning a leader in the process or setting up a steering committee, reducing the number of Creditors involved etc.);
- If borrower shows openness, new Investor is to be searched for (in agreement/in cooperation/ jointly with the borrower);
- Request and support the reorganisation of the borrower, operational and strategic business improvements (changing the management and strategic concepts, modifying processes and organisational structures, (re)focusing on core business, reducing operational costs, prioritising investments and/or reducing investment related costs etc.,).

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

In the process of restructuring of the legal entities, the Bank implements various measures, always insisting on the principle of responsibility of creditor. Here are some of the restructuring measures implemented by the Bank (the list is not comprehensive, since the cases of restructuring are specific and always require an individual approach):

- Modify the product: (i) refinance the exposure in a different product, either more appropriate for the Borrower's business profile or presenting better risk profile for the Bank (e.g., factoring, leasing), (ii) request up-front payments, (iii) modify the instalment size and frequency, (iv) modify interest rates, (v) impose sanctions (e.g., rescheduling fees);
- Strengthen the contracts; adjust clauses and covenants, with the aim to (i) to ring-fence the Bank's position if it comes to enforcement and (ii) to serve the establishment of financial discipline, data service, (iii) to support the execution of restructuring plan, obtaining additional owners' commitment etc.,;
- Get in touch with creditors and set up a Creditors' Committee if needed, involve also other Stakeholders if the Strategy requires this (please note that this step should be carefully considered in accordance with the direct contractual frame established with the borrower, as well as with the purpose that should be achieved through such actions);
- Channel borrower's Cash Flow through the Bank, including checking existing pledges on receivables and updating them if relevant (if assignments are silent, undertake all efforts to change this status and notify the buyers);
- Explore the possibility of involving New Stakeholders (Investors/ Equity partners, Suppliers, and Customers).

Management of problematic exposures requires high pro-activity and strict monitoring of implementation of defined strategy with the aim to prevent loss for the Bank and maximum recovery of existing exposure, Having in mind these goals, internal (between several departments and divisions within the Bank) and external (between the Bank and the debtor or between several banks which are creditors, etc.,) flow of information must be set and ensured so that the Bank could have relevant and updated information on its disposal which shall be used to define restructuring strategy and relationship with the debtor in general. There is a clearly defined line of authority within competent Workout Division which indicates who is in charge of daily monitoring and relationship with the debtor as well as which bank decision body is responsible for approval or correction of proposed restructuring steps/measures,

Every aspect of the Bank-Debtor relationship is defined by signing of necessary legal documentation (which is prior to signing checked by the Bank legal department). This ensures the transparency of agreed restructuring strategy/steps but also defines obligations of all contractual parties, Legal department of the Bank is charge of all legal issues related to the relationship between the Bank and the debtor no matter if they are related to pre or post restructuring phase.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Control of contracted and implemented restructuring measures is fulfilled through defining of the strategy implementation milestones and setting of control mechanism adequate to provide information if defined conditions are fulfilled. Parameters of permanent and solid control are defined ''case by case'' and with respect to specific characteristics of each individual case i.e. subject of restructuring and can involve (but not limited) to the following:

- Performing of the credit reviews (minimum on semi-annual basis) and presentation of review applications to decision making bodies of the bank. This application involves information on how successful is implemented restructuring strategy, does the debtor regularly repay its obligations towards the bank, current situation in the debtors business, etc., and if it is necessary correction strategy measures can be proposed;
- Regular monitoring of inflows/outflows from the debtors accounts opened with the bank (inflows/outflows from the business activity; comparing expected and agreed turnover through account opened with the bank, monitoring of inflows based on pledged/assigned receivables (in any); quick reaction in case of any non-standard or unusual transaction (or lack of them) etc.,;
- Monitoring of the debtors business activity (as well as the activities of the debtors connected parties, if any) based on information/reports presented by the debtor or other entity authorized by the debtor (or even an external supervisor if hired);
- Performing personal visit to the debtor (if it is necessary or if the complexity of the debtors business or defined restructuring strategy requires so);
- Regular monitoring and update of appraisals related to collateral;
- Regular monitoring of the public registers as well as publicly available information so that the bank could quickly respond to any unusual developments;
- Monitoring and quick response to possible debtors account blockade (bank is automatically informed by the National Bank of Serbia in case of account blockade);
- Monitoring of fulfilment of contractual or any other terms and conditions.

As a part of RBI group, Bank is obliged to respect and follow regulations set by the National Bank of Serbia but also regulations defined by the competent institution of the European Union (among which is the European Bank Authority). One of the highly important workout regulations is the one related to “forbearance” process which refers to all class of exposure. The term “Forborne” relates to loans (exposures) to which “forbearance” measures have been applied (measures such as concessions provided to the debtor which has (or will have) difficulties in repayment of debt to the bank). Forbearance status is defined by two factors:

- Financial difficulties, and
- Amendment/modification of the general contractual conditions which are considered as concessions.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Forborne status of the exposure will be concluded i.e. cancelled only when all of the following conditions are met:

- The loan is considered "Performing" and this relates also to those which status was changed from "Non-Performing" to "Performing" after performed financial analysis of the debtor has shown that the loan cannot be considered as "Non-Performing";
- Two years of probation period has passed since the day:
  - Since the "Forborne" exposure was considered as "Performing" (for loans which changes their status from "Non-Performing" to "Performing");
  - Since "Forborne" measure has been approved (for loans which have not been defined as "Non-Performing" on the date of "forbearance" measures have been implemented or for loans which status was not changed to "Non-Performing" due to implementation of "forbearance" measures);
- That the debtor has repaid significant amount of principal or interest during at least the half of probation period;
- No exposure towards the debtor was not due more than 30 days at the end of probation period.

The restructuring of the debtor physical person is initiated /implemented if the Bank estimates that the financial difficulties of the debtor have temporary nature and that the measures approved will help the client to overcome the financial difficulties and they will restore his full creditworthiness.

In the process of restructuring the Bank shall be guided by the following principles:

- Provide better understanding of customer needs and current financial situation;
- Improving the motivation of the client to regularly pay their obligations.

The basic principles which the Bank respects when determines the basic elements of a new restructuring loan are:

- Cover all balance sheet receivables from clients in one contract, with the possible exceptions,
- New repayment plan should consist of monthly instalments, where final maturity is determined based on the exposure of the client and the products he uses. The extension of the repayment period, i.e., a new period of repayment of the restructuring loan, which comprise all other exposures (except mortgage loans and cash loans secured by mortgage) is defined depending on the type of products which are restructured (credit cards, loans) and according to the exposure;
- Interest rate - A detailed method of determining the interest rate, but also the fee for processing the loan for restructuring is subject to approval by the Commission for setting interest rates, tariffs and fees for services;
- Collaterals for the new loan should be at least equivalent to the existing collaterals;
- Total monthly obligations of the client after the restructuring should be reduced by at least 20% over the current monthly obligations of the client;
- Restructuring models that are used (in process of restructuring of cliets-private individuals, the Bank uses different models, where client responsibility is always emphasised).

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Here are the basic models (measures) of the restructuring that Bank applies (always insisting on the principle of responsibility of the client):

- Extension of the maturity and adjustments of monthly instalments according to the client's needs, possibilities of repayment, the above set conditions and credit policies of the Bank;
- '' Grace period' up to 12 months, for the existing housing loan or cash loan with mortgage (while maintaining the maturity). During the grace period, the customer only pays the agreed amount of interest;
- The temporary reduction of interest over a period of a maximum of 12 months,
- „Negative amortization", In these cases, the interest rate for housing loans remains unchanged, but in the 'grace period' of 9 months the client pays 50% of the interest. After the expiry of 'grace period' the arrears are capitalized, retaining the original currency of the loan.

The client receives a status of "cured" upon fulfilment of the following conditions:

- Full repayment of the restructured loans; or
- Two years after completion of the restructuring was not in default (if within a period of two years, the client enters the default and exit the default, two years observation period is restarted from the date of default end);
- The last two years following the restructuring client have not been in 30+ days past due on any credit product (if within a period of two years, the client enters 30+ and rolls back below 30 the default and exit the default, two years observation period is restarted from the date of roll back).

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructured loans and advances by restructuring measures are shown below:

	31.12.2019								
Balance sheet exposure	Interest rate decrease	Extention of maturity	Moratorium	Capitalization of overdue amount	Refinancing	Partial write-off	Conversion of debt into equity	Other measures	Total
By sector									
Retail receivables	-	339,205	358	9,544	285,332	-	-	4,194	638,634
Housing loans	-	240,667	-	9,544	24,044	-	-	4,194	278,450
Consumer and cash loans	-	98,538	358	-	1,021	-	-	-	99,917
Transaction loans and credit cards	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	260,267	-	-	-	260,267
Non-retail receivables	32,403	1,262,959	-	-	377,237	36,961	-	167,498	1,877,057
Large enterprises	-	1,185,503	-	-	374,030	36,961	-	102,041	1,698,534
Small and medium-sized enterprises	32,403	40,137	-	-	3,207	-	-	65,457	141,204
Micro enterprises and entrepreneurs	-	37,319	-	-	-	-	-	-	37,319
Financial institutions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-
Total exposure	32,403	1,602,164	358	9,544	662,569	36,961	-	171,692	2,515,691

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructuring (continued)

Restructured loans and advances by restructuring measures are shown below:

	31.12.2018							
Balance sheet exposure	**Interest rate decrease**	**Extention of maturity**	**Moratorium**	**Capitalisation of overdue amount**	**Refinancing**	**Partial write-off**	**Conversion of debt into equity**	**Total**
By sector								
Retail receivables	**-**	**829,771**	**365**	**89,253**	**40,484**	**-**	**-**	**30,661**	**990,533**
Housing loans	-	716,059	-	89,253	39,745	-	-	30,661	875,718
Consumer and cash loans	-	113,712	365	-	739	-	-	-	114,815
Transaction loans and credit cards	-	-	-	-	-	-	-	-	-
Other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**43,422**	**2,990,305**	**-**	**-**	**680,866**	**44,260**	**-**	**754,858**	**4,513,711**
Large enterprises	-	2,943,370	-	-	677,531	44,260	-	691,746	4,356,907
Small and medium-sized enterprises	43,422	21,923	-	-	3,335	-	-	63,112	131,792
Micro enterprises and entrepreneurs	-	25,012	-	-	-	-	-	-	25,012
Financial institutions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposure	**43,422**	**3,820,076**	**365**	**89,253**	**721,350**	**44,260**	**-**	**785,519**	**5,504,244**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructuring (continued)

	31.12.2019								
Off-balance sheet exposure	**Interesat rate decrease**	**Extention of maturity**	**Moratorium**	**Capitalisation of overdue amount**	**Refinancing**	**Partial write-off**	**Conversion of debt into equity**	**Other measures**	**Total**
By sector									
Retail receivables	-	-	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Non-retail receivables	-	240	-	-	-	-	-	329,614	329,854
Large enterprises	-	-	-	-	-	-	-	300,190	300,190
Small and medium-sized enterprises	-	240	-	-	-	-	-	29,424	29,664
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-
Total exposure	-	240	-	-	-	-	-	329,614	329,854

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructuring (continued)

	31.12.2018								
Off-balance sheet exposure	Interesat rate decrease	Extention of maturity	Moratorium	Capitalisation of overdue amount	Refinancing	Partial write-off	Conversion of debt into equity	Other measures	Total
By sector									
Retail receivables	-	-	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Non-retail receivables	-	119	-	-	-	-	-	271,513	271,632
Large enterprises	-	-	-	-	-	-	-	271,093	271,093
Small and medium-sized enterprises	-	119	-	-	-	-	-	420	539
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-
Total exposure	-	119	-	-	-	-	-	271,513	271,632

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructuring (continued)

Data on changes of forborne balance sheet assets and off balance sheet items during 2019 are presented below:

Balance sheet exposures	Opening balance as at 1 January 2019, gross exposure	Forborne during the period	Exited the forbearance category during the period	FX impact	Other changes	Closing balance as at 31 December 2019, gross exposure	Closing balance as at 31 December 2019, net exposure
	1	2	3	4	5	6 (1+2-3+4+5)	7
Retail receivables	**990,534**	**320,041**	**632,684**	**1,688**	**(40,944)**	**638,634**	**424,991**
Housing loans	875,718	23,623	594,598	2,230	(28,523)	278,450	177,585
Consumer and cash loans	105,780	36,151	29,184	13	(12,843)	99,917	50,314
Transaction loans and credit cards	-	-	-	-	-	-	-
Other receivables	**9,036**	**260,267**	**8,902**	**(555)**	**422**	**260,267**	**197,092**
Non-retail receivables	**990,534**	**320,041**	**632,684**	**1,688**	**(40,944)**	**638,634**	**424,991**
Large enterprises	4,356,907	61,570	1,970,500	(2,958)	(746,484)	1,698,534	234,416
Small and medium-sized enterprises	131,792	61,816	32,754	(439)	(19,211)	141,204	71,047
Micro enterprises and entrepreneurs	25,012	29,190	6,808	(9)	(10,066)	37,319	30,017
Financial institutions	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-
Total Exposure	**5,504,245**	**472,617**	**2,642,746**	**(1,718)**	**(816,705)**	**2,515,691**	**760,471**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructuring (continued)

Off-balance sheet exposures	Opening balance as at 1 January 2019, gross exposure	Forborne during the period	Exited the forbearance category during the period	FX impact	Other changes	Closing balance as at 31 December 2018, gross exposure	Closing balance as at 31 December 2019, net exposure
	1	2	3	4	5	6 (1+2-3+4+5)	7
Retail receivables	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-
Transaction loans and credit cards	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Non-retail receivables	271,632	59,750	397	-	(1,131)	329,854	319,340
Large enterprises	271,093	30,353	-	-	(1,256)	300,190	289,762
Small and medium-sized enterprises	539	29,397	397	-	125	29,664	29,578
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-
Total Exposure	271.632	59.750	397	-	(1.131)	329.854	319.340

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Restructuring (continued)

Data on changes of forborne balance sheet assets and off balance sheet items during 2018 are presented below:

Balance sheet exposures	Opening balance as at 1 January 2018, gross exposure	Forborne during the period	Exited the forbearance category during the period	FX impact	Other changes	Closing balance as at 31 December 2018, gross exposure	Closing balance as at 31 December 2018, net exposure
	1	2	3	4	5	6 (1+2-3+4+5)	7
Retail receivables	**1,165,557**	**43,634**	**149,028**	**13,118**	**(82,748)**	**990,533**	**687,889**
Housing loans	1,018,646	21,436	116,105	13,041	(61,300)	875,718	618,644
Consumer and cash loans	141,511	22,198	27,523	75	(21,446)	114,815	69,245
Transaction loans and credit cards	-	-	-	-	-	-	-
Other receivables	**5,400**	**-**	**5,400**	**2**	**(2)**	**-**	**-**
Non-retail receivables	**5,661,025**	**691,449**	**709,111**	**(3,673)**	**(1,125,979)**	**4,513,711**	**958,688**
Large enterprises	5,589,236	555,475	658,701	(3,376)	(1,125,727)	4,356,907	884,619
Small and medium-sized enterprises	64,726	112,135	45,499	(293)	723	131,792	55,189
Micro enterprises and entrepreneurs	7,063	23,839	4,911	(4)	(975)	25,012	18,880
Financial institutions	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Exposure	**6,826,582**	**735,083**	**858,139**	**9,445**	**(1,208,727)**	**5,504,244**	**1,646,577**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Off-balance sheet exposures	Opening balance as at 1 January 2018, gross exposure	Forborne during the period	Exited the forbearance category during the period	FX impact	Other changes	Closing balance as at 31 December 2018, gross exposure	Closing balance as at 31 December 2018, net exposure
	1	2	3	4	5	6 (1+2-3+4+5)	7
Retail receivables	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-
Transaction loans and credit cards	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Non-retail receivables	97,608	119	17,366	-	191,270	271,632	267,114
Large enterprises	97,381	-	17,366	-	191,077	271,093	266,575
Small and medium-sized enterprises	227	119	-	-	193	539	539
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-
Total Exposure	97,608	119	17,366	-	191,270	271,632	267,114

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Write-off policy

The Bank writes off loans and receivables or investment securities, and any related allowances for impairment losses, when Bank Credit Department determines that the loan or security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product specific past due status.

Shares that are part of trading book portfolio in the amount of RSD 0 (2018: RSD 141 thousand) are not rated.

The table below shows analysis of counterparty credit exposures arising from derivative transactions:

	Over-the-counter	
	Nominal value	Fair value
31 December 2019		
Derivative assets	82,700,376	21,442
Derivative liabilities	82,646,533	18,516
31 December 2018		
Derivative assets	23,930,180	16,141
Derivative liabilities	(23,860,026)	(6,959)

Collateral as an instrument of credit risk mitigation

The Bank holds collateral for loans and advances to customers in the form of mortgages on real estate and other tangible and intangible assets of the credit protection. Estimates of market value are based on the value of collateral assessed at the time of borrowing and generally are updated annually. The minimum haircuts are applied on the existing collateral values. Where appropriate, additional haircuts laid down in RBI policy for individual types of credit protection instruments are applied. This policy takes into account the specific types of instruments, market fluctuations and local specificities.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Data on the type and value of collateral and guarantees providers by sector and categories of receivables at December 31, 2019 are shown below:

Stage 1 exposures

	31.12.2019.									
	Collateral type*									
							Guarantees** issued by			
Balance sheet exposures	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	**91,804**	**-**	**16,496,623**	**24,496**	**-**	**1,795**	**-**	**-**	**-**	**903**
Housing loans	43,406	-	15,349,366	19,957	-	-	-	-	-	903
Consumer and cash loans	22,569	-	-	-	-	1,795	-	-	-	-
Transaction loans and credit cards	25,825	-	-	-	-	-	-	-	-	-
Other receivables	**4**	**-**	**1,147,257**	**4,539**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**453,501**	**-**	**1,221,070**	**12,688,348**	**-**	**1,251,958**	**-**	**21,358,929**	**-**	**600,022**
Large enterprises	188,913	-	272,874	11,363,980	-	1,221,639	-	18,625	-	373,652
Small and medium-sized enterprises	233,662	-	564,403	1,229,996	-	28,907	-	-	-	203,137
Micro enterprises and entrepreneurs	30,926	-	383,793	94,372	-	1,412	-	-	-	23,233
Agriculture	-	-	-	-	-	-	-	21,340,304	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By category of receivable										
Performing exposures	544,826	-	17,717,693	12,712,843	-	1,253,753	-	21,358,929	-	600,926
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	481	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**545,307**	**-**	**17,717,693**	**12,712,843**	**-**	**1,253,753**	**-**	**21,358,929**	**-**	**600,926**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 1 exposures

	31.12.2019.									
	Collateral type*									
							Guarantees** issued by			
Off-balance sheet exposures	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	68,358	-	-	-	-	-	-	-	-	
Housing loans	-	-	-	-	-	-	-	-	-	
Consumer and cash loans	-	-	-	-	-	-	-	-	-	
Transaction loans and credit cards	51,889	-	-	-	-	-	-	-	-	
Other receivables	16,469	-	-	-	-	-	-	-	-	
Non-retail receivables	1,150,095	-	281,412	2,960,532	-	571,777	-	6,472,802	9,274,773	2,249,512
Large enterprises	856,451	-	104,511	2,687,127	-	566,901	-	105,872	9,271,300	2,214,118
Small and medium-sized enterprises	194,008	-	153,238	266,720	-	4,876	-	-	3,473	21,573
Micro enterprises and entrepreneurs	99,636	-	23,663	6,685	-	-	-	-	-	13,821
Agriculture	-	-	-	-	-	-	-	6,366,930	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-	-
By category of receivable										
Performing exposures	1,218,413	-	281,411	2,960,532	-	571,777	-	6,472,803	9,274,773	2,249,512
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Performing exposures	41	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	1,218,454	-	281,411	2,960,532	-	571,777	-	6,472,803	9,274,773	2,249,512

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 2 exposures

Balance sheet exposures	31.12.2019. Collateral type*									
	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Guarantees** issued by: Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	**26,668**	**-**	**3,241,600**	**23,879**	**-**	**-**	**-**	**-**	**-**	**-**
Housing loans	24,414	-	2,380,307	23,879	-	-	-	-	-	-
Consumer and cash loans	1,567	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	687	-	-	-	-	-	-	-	-	-
Other receivables	**-**	**-**	**861,293**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**57,139**	**-**	**264,571**	**1,541,432**	**-**	**29,121**	**-**	**-**	**1,721,486**	**8,119**
Large enterprises	17,794	-	104,636	1,009,187	-	25,570	-	-	1,626,594	-
Small and medium-sized enterprises	39,345	-	154,372	532,245	-	3,551	-	-	94,892	8,119
Micro enterprises and entrepreneurs	-	-	5,563	-	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	-	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By category of receivable										
Performing exposures	83,806	-	3,506,171	1,565,310	-	29,121	-	-	1,721,485	8,119
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	1	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**83,807**	**-**	**3,506,171**	**1,565,310**	**-**	**29,121**	**-**	**-**	**1,721,485**	**8,119**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 2 exposures

	31.12.2019.									
	Collateral type*									
							Guarantees** issued by			
Off-balance sheet exposures	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	-	-	-	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
Non-retail receivables	9,803	-	52,569	401,408	-	37,170	-	29,207	125,957	23,132
Large enterprises	2,433	-	50,625	386,879	-	37,170	-	-	125,691	23,132
Small and medium-sized enterprises	7,370	-	1,944	14,529	-	-	-	-	266	-
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	29,207	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-	-
By category of receivable										
Performing exposures	9,491	-	52,570	401,408	-	37,170	-	29,207	125,956	23,132
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	312	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**9,803**	**-**	**52,570**	**401,408**	**-**	**37,170**	**-**	**29,207**	**125,956**	**23,132**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 3 exposures

Balance sheet exposures	31.12.2019. Collateral type*									
	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Guarantees** issued by			
							Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	**6,351**	**-**	**543,604**	**1,787**	**-**	**-**	**-**	**-**	**-**	**-**
Housing loans	5,795	-	396,798	-	-	-	-	-	-	-
Consumer and cash loans	62	-	2,892	-	-	-	-	-	-	-
Transaction loans and credit cards	480	-	-	-	-	-	-	-	-	-
Other receivables	**14**	**-**	**143,914**	**1,787**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**-**	**-**	**57,722**	**149,246**	**-**	**66**	**-**	**-**	**3,230**	**411**
Large enterprises	-	-	-	61,219	-	-	-	-	-	-
Small and medium-sized enterprises	-	-	40,458	85,022	-	66	-	-	1,403	-
Micro enterprises and entrepreneurs	-	-	17,264	3,005	-	-	-	-	1,827	411
Agriculture	-	-	-	-	-	-	-	-	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By category of receivable										
Performing exposures	989	-	178,072	69,811	-	66	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	5,362	-	423,254	81,222	-	-	-	-	3,230	411
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**6,351**	**-**	**601,326**	**151,033**	**-**	**66**	**-**	**-**	**3,230**	**411**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 3 exposures

Off-balance sheet exposures	31.12.2019. Collateral type*									
	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Guarantees** issued by			
							Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	**695**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Housing loans	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	107	-	-	-	-	-	-	-	-	-
Other receivables	**588**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**10,429**	**-**	**19,250**	**189,468**	**-**	**28,287**	**-**	**-**	**244,879**	**-**
Large enterprises	10,429	-	19,250	189,468	-	28,287	-	-	244,879	-
Small and medium-sized enterprises	-	-	-	-	-	-	-	-	-	-
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	-	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By category of receivable										
Performing exposures	-	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	11,124	-	19,250	189,468	-	28,287	-	-	244,879	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**11,124**	**-**	**19,250**	**189,468**	**-**	**28,287**	**-**	**-**	**244,879**	**-**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)
Data on the type and value of collateral and guarantees providers by sector and categories of receivables at December 31, 2018 are shown below:

Stage 1 exposures

31.12.2018.										
	Collateral type*									
							Guarantees** issued by			
Balance sheet exposures	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	**122,386**	**-**	**13,905,656**	**29,767**	**-**	**5,868**	**-**	**-**	**-**	**-**
Housing loans	85,080	-	13,905,656	29,767	-	-	-	-	-	-
Consumer and cash loans	18,673	-	-	-	-	5,868	-	-	-	-
Transaction loans and credit cards	18,624	-	-	-	-	-	-	-	-	-
Other receivables	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**655,127**	**-**	**1,241,087**	**13,388,596**	**-**	**1,165,658**	**-**	**21,738,729**	**-**	**3,613,983**
Large enterprises	357,992	-	328,505	11,191,031	-	1,132,170	-	290,856	-	3,511,976
Small and medium-sized enterprises	260,898	-	614,625	2,089,739	-	30,933	-	-	-	96,978
Micro enterprises and entrepreneurs	36,237	-	297,957	107,826	-	2,555	-	-	-	5,029
Agriculture	-	-	-	-	-	-	-	21,447,873	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By category of receivable										
Performing exposures	777,512	-	15,146,744	13,418,363	-	1,171,526	-	21,738,729	-	3,613,983
Out of which: forborne	-	-	35,116	35,328	-	-	-	-	-	-
Non-performing exposures	-	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**777,512**	**-**	**15,146,744**	**13,418,363**	**-**	**1,171,526**	**-**	**21,738,729**	**-**	**3,613,983**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 1 exposures

	31.12.2018.									
	Collateral type*									
							Guarantees** issued by			
Off-balance sheet exposures	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	**50,430**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Housing loans	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	40,921	-	-	-	-	-	-	-	-	-
Other receivables	**9,509**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**1,513,466**	**-**	**279,132**	**2,894,816**	**-**	**306,791**	**-**	**5,606,499**	**-**	**7,225,779**
Large enterprises	1,289,667	-	109,447	2,496,110	-	285,441	-	286,646	-	7,191,592
Small and medium-sized enterprises	175,332	-	144,713	389,570	-	21,350	-	-	-	32,687
Micro enterprises and entrepreneurs	48,467	-	24,972	9,136	-	-	-	-	-	1,500
Agriculture	-	-	-	-	-	-	-	5,319,853	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By category of receivable										
Performing exposures	1,563,897	-	279,132	2,894,816	-	306,791	-	5,606,499	-	7,225,779
Out of which: forborne	-	-	12,150	-	-	-	-	-	-	-
Non-performing exposures	-	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**1,563,897**	**-**	**279,132**	**2,894,816**	**-**	**306,791**	**-**	**5,606,499**	**-**	**7,225,779**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 2 exposures

Balance sheet exposures	31.12.2018. Collateral type*						Guarantees** issued by			
	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	36,737	-	3,783,829	22,719	-	-	-	-	-	-
Housing loans	35,501	-	3,783,829	22,719	-	-	-	-	-	-
Consumer and cash loans	727	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	509	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
Non-retail receivables	3,891	-	127,389	1,349,684	-	89,511	-	1,601	-	1,099,341
Large enterprises	-	-	48,936	1,226,194	-	66,577	-	-	-	1,096,894
Small and medium-sized enterprises	3,891	-	76,900	117,705	-	22,934	-	-	-	2,447
Micro enterprises and entrepreneurs	-	-	1,553	5,785	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	1,601	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-	-
By category of receivable										
Performing exposures	40,627	-	3,911,219	1,372,403	-	89,511	-	1,601	-	1,099,340
Out of which: forborne	2,551	-	230,293	122,268	-	25,473	-	'	-	-
Non-performing exposures	-	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**40,627**	**-**	**3,911,219**	**1,372,403**	**-**	**89,511**	**-**	**1,601**	**-**	**1,099,340**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 2 exposures

Off-balance sheet exposures	31.12.2018. Collateral type*						Guarantees** issued by			
	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	**336**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Housing loans	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	336	-	-	-	-	-	-	-	-	-
Other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-retail receivables	**2,649**	**-**	**50,378**	**92,057**	**-**	**-**	**-**	**1,016,689**	**-**	**341,347**
Large enterprises	962	-	36,878	72,755	-	-	-	-	-	341,347
Small and medium-sized enterprises	1,687	-	13,500	19,302	-	-	-	-	-	-
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	1,016,689	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
By category of receivable										
Performing exposures	2,985	-	50,378	92,057	-	-	-	1,016,689	-	341,347
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	-	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**2,985**	**-**	**50,378**	**92,057**	**-**	**-**	**-**	**1,016,689**	**-**	**341,347**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 3 exposures

31.12.2018.										
	Collateral type*									
Balance sheet exposures	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Guarantees** issued by			
							Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	5,573	-	442,130	14,327	-	-	-	-	-	-
Housing loans	4,636	-	439,075	14,327	-	-	-	-	-	-
Consumer and cash loans	733	-	3,055	-	-	-	-	-	-	-
Transaction loans and credit cards	204	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
Non-retail receivables	42	-	30,496	341,541	-	25,037	-	-	-	-
Large enterprises	42	-	1	302,215	-	24,081	-	-	-	-
Small and medium-sized enterprises	-	-	22,790	33,970	-	956	-	-	-	-
Micro enterprises and entrepreneurs	-	-	7,705	5,356	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	-	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-	-
By category of receivable										
Performing exposures	310	-	9,313	-	-	-	-	-	-	-
Out of which: forborne	-	-	1,496	-	-	-	-	-	-	-
Non-performing exposures	5,305	-	463,313	355,868	-	25,038	-	-	-	-
Out of which: forborne	1,011	-	178,268	305,696	-	25,038	-	-	-	-
Total exposure	5,615	-	472,626	355,868	-	25,038	-	-	-	-

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collateral as an instrument of credit risk mitigation (continued)

Stage 3 exposures

Off-balance sheet exposures (in RSD thousand)	31.12.2018.									
	Collateral type*									
	Depostis	Securities	Residential immovable property	Other immovable property	Pledge on goods and amimals	Other	Guarantees** issued by			
							Governance	Bank	Related party of borrower	Other
By sector										
Retail receivables	97	-	-	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-	-
Transaction loans and credit cards	97	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
Non-retail receivables	10,440	-	19,207	82,620	-	-	-	-	-	-
Large enterprises	10,440	-	19,207	82,620	-	-	-	-	-	-
Small and medium-sized enterprises	-	-	-	-	-	-	-	-	-	-
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-	-	-	-
Public companies	-	-	-	-	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-	-	-	-	-
By category of receivable										
Performing exposures	-	-	-	-	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Non-performing exposures	10,538	-	19,207	82,620	-	-	-	-	-	-
Out of which: forborne	-	-	-	-	-	-	-	-	-	-
Total exposure	**10,538**	**-**	**19,207**	**82,620**	**-**	**-**	**-**	**-**	**-**	**-**

* Market or fair value – maximum up to gross collatelarised exposure
** Guaranteed amount - maximum up to gross collatelarised exposure

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

In the tables above, properties are disclosed at their weighted collateral value, which is used in impairment calculation, while value of guarantees is limited to the book value of collateralized loans and receivables. The Weighted Collateral Value (WCV) is calculated using the NCV minus valuation haircuts (discounts) and senior liens and is limited by the amount specified in the collateral agreement as well as by the limit amount secured by the respective collateral. The Nominal Collateral Value (NCV) is the fair market value (FMV), the value based on an expert appraisal or the purchase price of the real estate.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

LTV ratio

LTV indicator represents the ratio of the gross value of receivables and the market value of the property that this claim is collateralized.

Data on receivables that are secured by real estate by the LTV ratio are shown below:

Exposure collateralized by immovable property,		
	31 December 2019	31 December 2018
Below 50%	22,627,813	23,458,173
From 50% to 70%	14,933,977	11,687,993
From 70% to 90%	6,282,685	6,608,398
From 90% to 100%	3,199,763	1,738,603
From 100% to 120%	655,349	884,956
From 120% to 150%	1,955,540	2,594,579
Above 150%	6,342,994	3,723,306
Total	**55,998,121**	**50,696,008**
Average LTV ratio	**26%**	**23%**

Investment securities

The Bank manages limits and controls concentrations of credit risk and settlement risk on counterparty and (debt) security level. The investments in those securities and bills (National bank of Serbia and Ministry of Finance of Republic of Serbia - sovereign issuer) are viewed as a way to gain a better credit quality mapping and profit intentions.

The risks are monitored on a revolving basis and subject to annual review at least. The limits are analysed at the proposal of the Treasury and Investment Banking Division and recommendation of the Risk Management Division (after the analyses of the clients and receipt of the preliminary approval from RBI) and approved by the Credit Committee of the Bank as the maximum Bank exposure during the defined time period for the instrument, one client and group of connected clients. Actual exposures against limits are monitored daily.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

In 2019 and 2018 the Bank had in its portfolio the following debt securities and bills:

- Ministry of Finance of Republic of Serbia T-Bills (local currency and euro-indexed) and bonds,
- US Treasuries Bonds,
- Bonds issued by Raiffeisen bank A.S. Prague and
- Bonds from international financial organisations (IFC, EBRD and KfW).

In 2019 and 2018 the Bank entered in reverse-repo transaction with National bank of Serbia (based on the National bank of Serbia Bills).

Derivatives

In 2019 and 2018 the Bank was engaged in the following types of derivative transactions:

- Foreign Exchange Forward and similar contracts,
- Foreign Exchange Swap contracts and
- Interest Rate Swap.

The Bank uses these products for managing currency risk, as well as interest rate risk.

The foreign exchange forward and swap transactions create credit risk (risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter) and settlement risk (risk that one party in a foreign exchange transaction will pay the currency it sold but not receive the currency it bought) exposures for the Bank.

Settlement risk arises in any situation where a payment is made in the expectation of a corresponding receipt. These risk exposures are managed as part of the overall lending limits with customers.

The Bank maintains strict control of limits on open derivative positions.

Hedge Accounting Methodology

In the course of ordinary business, the Bank uses carries out different transaction with derivatives in order to manage interest rate risk and the most frequent transaction is interest rate swap. In a „plain vanilla" interest rate swap transaction, two parties agree to exchange payments based on an agreed notional amount and interest rates during the term of the IRS under terms and conditions specified in advance. Typically, one party makes fixed payments to counterparty in exchange for variable payments based on a fixed notional principal amount over a specified period of time. This instrument allows transformation of exposures with contracted fixed interest rates in exposures with floating interest rates and vice versa and as such, the instrument is highly effective in mitigation/neutralisation of interest rate risk. Hedge accounting seeks to correct usual accounting treatment of instrument (interest rate swap) and hedge item, and allows that gains and losses on instrument and hedge item are recognized in the Statement on profit and loss and other comprehensive income in the same accounting period and in such way these gains and losses are offset. This principle is known as „matching concept".

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Cash Flow Hedge

The Bank established cash flow hedge accounting in order to hedge the risk of changes in the cash flows paid attributable to changes in the variable rates on the liabilities.

The hedging objective was to eliminate the variability of the Bank's interest outflows that arise because of changes in the reference floating interest rate, for the designated interest payments.

More precisely the intention was to hedge interest risk related to the debt/borrowings, on which it pays floating interest and by doing so hedge interest rate gaps using IRS (receive float-pay fix). This way the interest rate on debt would switch to fix and would better match the asset side loans with fixed interest.

The method used by the Bank for checking hedge effectiveness is the dollar offset method. Both retrospective and prospective tests performed at the year end showed very high effectiveness of the hedge.

Unrealized gains recognised in other comprehensive income during the period in respect of cash flow hedge (net of deffered tax) amount RSD 42,248 thousand (2018: RSD 22,651 thousand).

The Bank did not have any amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

Portfolio Hedge

Below is presented Portfolio hedge methodology (Macro Fair Value hedge).

The hedging objective of fair value hedge is to mitigate interest rate risk which arose on transactions with fixed interest rates agreed. As result of this methodology, fixed interest rate is transformed in variable interest rate based on interest rate swap use, Gains and losses on measurement of hedge instrument and hedge item are recognised in the Statement on profit and loss. Losses on hedging instuments in portfolio hedge for 2019 amounts RSD 1,178 thousand (2018: RSD 2,203 thousand), while losses on hedged item attributable to the designed risk amount RSD 8,475 thousand (2018: RSD 17,155 thousand).

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The hedge item in Macro Fair Value Hedge (portfolio hedge) is the whole portfolio or part of portfolio of financial instruments. The portfolio may include both assets and liabilities instruments. These methodology takes in the account two the most significant issues that are consequence of interest rate change:

- A change in interest rate changes present value cash flow of financial instruments and
- A change in interest rate has impact on dynamic of loan repayment by customers (prepayment risk or default risk).

The method used by the Bank for checking hedge effectiveness is the dollar offset method.

(c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its liquidity position, It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank has access to a diverse funding base. Funds are raised using:

- deposits with wide ranges of maturity (different number and different customers),
- long term borrowings,
- subordinated liabilities and
- share capital.

The Bank ensures steady and long-term funding through diversification of fund sources. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank's strategy.

The following table provides information on liquidity ratios:

%	2019	2018
Liquidity indicator-daily	1.96	2.26
Liquidity indicator-three daily	1.94	2.17
Liquidity indicator-monthly	2.01	2.16
Narrow liquidity indicator- daily	1.63	1.87
Narrow liquidity indicator-three daily	1.57	1.76
Narrow liquidity indicator-monthly	1.65	1.60
Liquidity Coverage Ratio (LCR)	170.74	207.27

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings as at 31 December:

	Carrying amount	Gross nominal inflow /(outflow)	up to 1 months	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Financial assets							
Cash and balances with central banks	69,905,262	69,905,266	69,905,266	-	-	-	-
Receivables arising from derivatives	21,442	21,442	21,442	-	-	-	-
Securities	54,502,443	54,509,244	489,205	611,140	9,985,443	40,786,841	2,636,615
Loans and receivables to banks and other financial institutions	13,550,612	13,551,352	8,110,733	256,317	991,737	4,046,777	145,788
Loans and receivables to customers	171,584,719	176,522,994	17,572,131	9,075,014	43,227,106	77,974,005	28,674,738
Receivables from derivatives held for hedging against risks	152,072	152,072	152,072	-	-	-	-
Investments in subsidiaries	1,293,551	1,293,551		-	-	-	1,293,551
Total	**311,010,101**	**315,955,921**	**96,250,849**	**9,942,471**	**54,204,286**	**122,807,623**	**32,750,692**
Liabilities							
Liabilities arising from derivatives	18,516	18,516	18,516	-	-	-	-
Deposits and other liabilities from banks, other financial institutions and central bank	4,287,532	4,287,532	3,768,473	-	346,198	172,861	-
Deposits and other liabilities from other customers	251,813,778	251,813,778	240,713,261	1,088,358	2,872,163	4,263,488	2,876,508
Liabilities arising from financial derivatives held for hedging against risks	234,945	234,945	234,945	-	-	-	-
Total	256,354,771	256,354,771	244,735,195	1,088,358	3,218,361	4,436,349	2,876,508
Net liquidity gap as of 31 December 2019	54,655,330	59,601,150	(148,484,346)	8,854,113	50,985,925	118,371,274	29,874,184
Net cumulative liquidity gap as at 31 December 2019	-	-	(148,484,346)	(139,630,233)	(88,644,308)	29,726,966	59,601,150

Net liquidity mismatch for a bucket up to 1 month relates to a fact that this bucket includes all a-vista deposits which the Bank doesn't expect to outflow in 1 month period and which have so called stickiness with outflow expected in 5 years period based on internal model. Also, the Bank has securities of Ministry of Finance of Republic of Serbia with counterbalancing capacity. These securities could be pledged for a short-term liquidity funds with National bank of Serbia, if needed.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

	Carrying amount	Gross nominal inflow /(outflow)	up to 1 months	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Financial assets							
Cash and balances with central banks	71,884,119	71,884,127	71,884,127	-	-	-	-
Receivables arising from derivatives	16,141	16,141	16,141	-	-	-	-
Securities	50,328,204	50,345,742	5,112,714	8,402,420	12,904,623	23,925,985	-
Loans and receivables to banks and other financial institutions	11,558,104	11,572,197	6,338,639	330,288	1,784,903	3,118,368	-
Loans and receivables to customers	150,387,617	156,779,527	16,027,420	8,888,697	34,797,475	72,771,100	24,294,835
Receivables from derivatives held for hedging against risks	77,362	77,362	77,362	-	-	-	-
Investments in subsidiaries	1,028,323	1,028,323		-	-	-	1,028,323
Total	**285,279,870**	**291,703,411**	**99,456,403**	**17,621,404**	**49,487,001**	**99,815,453**	**25,323,158**
Financial liabilities							
Liabilities arising from derivatives	6,959	6,959	6,959	-	-	-	-
Deposits and other liabilities from banks, other financial institutions and central bank	3,038,158	3,038,158	2,169,428	-	347,492	521,238	-
Deposits and other liabilities from other customers	227,889,691	227,889,691	214,730,463	1,016,280	3,733,684	4,881,435	3,527,829
Liabilities arising from financial derivatives held for hedging against risks	71,709	71,709	71,709	-	-	-	-
Total	**231,006,517**	**231,006,517**	**216,978,559**	**1,016,280**	**4,081,176**	**5,402,673**	**3,527,829**
Net liquidity gap as of 31 December 2018	**54,273,353**	**60,696,894**	**(117,522,156)**	**16,605,124**	**45,405,825**	**94,412,780**	**21,795,329**
Net cumulative liquidity gap as at 31 December 2018	**-**	**-**	**(117,522,156)**	**(100,917,032)**	**(55,511,207)**	**38,901,572**	**60,580,848**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities to be recovered or settled more than 12 months after the reporting date:

	2019	2018
Financial assets		
Loans and receivables to customers	64,935,976	53,321,682
Financial assets held to maturity	-	-
Financial liabilities		
Deposits and other liabilities from other customers	244,673,782	219,480,427

The table below sets out the components of the Bank`s liquidity reserves:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Balances with central banks	41,974,882	41,974,882	47,098,596	47,098,596
Other cash and cash equivalents	-	-	24,785,523	24,785,523
Unencumbered debt securities issued by sovereigns	27,930,380	27,930,380	-	-

The table below sets out the availability of the Bank`s financial assets to support future funding as at 31 December 2019:

	Encumbered		Unencumbered	
	Pledged as collateral	Other	Available as collateral	Other
Cash and balances with central banks	-	-	-	69,905,262
Financial assets at fair value through profit or loss held for trading	-	-	-	-
Loans and receivables	-	-	-	185,135,331
Financial assets held to maturity	-	-	-	-
Total assets	-	-	-	255,040,593

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The table below sets out the availability of the Bank`s financial assets to support future funding as at 31 December 2018:

	Encumbered		Unencumbered	
	Pledged as collateral	Other	Available as collateral	Other
Cash and balances with central banks	-	-	-	71,884,119
Financial assets at fair value through profit or loss held for trading	-	-	-	-
Loans and receivables	-	-	-	161,945,721
Financial assets held to maturity	-	-	-	-
Total assets	**-**	**-**	**-**	**233,829,840**

(d) Market risks

The Bank takes on exposure to market risks, which is the risk of losses on financial instruments arising from changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return of risk.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

	Note	Carrying amount	Trading portfolios	Non-trading portfolios
31 December 2019				
Assets subject to market risks				
Cash and balances with central banks	14	69,905,262	-	69,905,262
Receivables arising from derivatives	15	21,442	21,442	
Securities	16	54,502,443	1,328,938	53,173,505
Loans and receivables to banks and other financial institutions	17	13,550,612	-	13,550,612
Loans and receivables to customers	18	171,584,719	-	171,584,719
Receivables from derivatives held for hedging against risks		152,072	-	152,072
Liabilities subject to market risks				
Liabilities arising from derivatives		18,516	18,516	-
Liabilities arising from derivatives held for hedging against risks		234,945	-	234,945
Deposits and other liabilities from banks, other financial institutions and central bank	24	4,287,532	-	4,287,532
Deposits and other liabilities from other customers	**25**	**251,813,778**	**-**	**251,813,778**
31 December 2018				
Assets subject to market risks				
Cash and balances with central banks	14	71,884,119	-	71,884,119
Receivables arising from derivatives	15	16,141	16,141	
Securities	16	50,328,204	141	50,328,063
Loans and receivables to banks and other financial institutions	17	11,558,104	-	11,558,104
Loans and receivables to customers	18	150,387,617	-	150,387,617
Receivables from derivatives held for hedging against risks		77,362	-	77,362
Liabilities subject to market risks				
Liabilities arising from derivatives		6,959	6,959	-
Liabilities arising from derivatives held for hedging against risks		71,709	-	71,709
Deposits and other liabilities from banks, other financial institutions and central bank	24	3,038,158	-	3,038,158
Deposits and other liabilities from other customers	**25**	**227,889,691**	**-**	**227,889,691**

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

Interest rate risk

Interest rate risk is the risk that resulted from the changes in interest rates. The risk of changes in interest rates causes uncertainty in respect of the Bank's income due to the possibility that interest rate might alter. The Bank recognized the following risks:

- "outright" interest rate risk: risk that ensues from the sensitivity of interest rate to change in relation to the vertical shift of the yield curve;
- yield curve risk: risk that ensues from the sensitivity to the change of the shape and slope of the yield curve (horizontal shift); and
- basis risk: risk that ensues from the sensitivity to the change in spread between different interest rates.

Interest rate risk is identified on the level of every individual transaction as well as on the Bank level, The Bank separates exposures to interest rate risk into either trading or non-trading portfolios (Banking book).

/i/ Trading portfolios (Trading book)

As at 31 December 2019 and 31 December 2018 Bank did not have interest sensitive instruments classified in the trading book.

/ii/ Non-trading portfolios (Banking book)

The methodology used to assess the interest rate risk in non-trading portfolio is the Gap/Duration analysis.

The difference between the interest bearing assets and liabilities within the separate time "baskets" shows how two balance sheet sides react differently to interest rate changes:

- in case of positive GAP the Bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency fall;
- in case of negative GAP, bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency rise.

The number and the "baskets" schedule are defined on the ALCO.

Resulting short and long positions are weighted by factors designed to reflect the sensitivity of the positions in the different time baskets to an assumed change in interest rates, based on an assumed parallel shift of 200 basis points throughout the time spectrum, and on proxies of modified duration.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

Interest rate risk (continued)

	31 December 2019		31 December 2018	
	Nominal Gap	Effect of Interest Rate Parallel Shift 200 bp	Nominal Gap	Effect of Interest Rate Parallel Shift 200 bp
RSD	4,593,713	950,019	2,725,966	518,883
EUR	7,204,549	1,547,083	1,181,497	1,508,098
USD	4,474,019	166,186	84,119	57,390
CHF	4,721,825	232,698	54,961	45,052
Other	846,571	5,294	76,378	4,684
Total effect		**2,901,280**		**2,134,107**

Sensitivity of projected net interest income as at 31 December 2019:

	+200bp	-200bp	Flattener	Steepener	Short+	Short-	IRRBB+	IRRBB
RSD	527,006	(668,083)	950,596	(982,547)	1,230,040	(1,623,740)	1,055,632	(1,378,536)
EUR	412,928	(1,240,005)	326,013	(877,820)	439,988	(1,434,247)	412,928	(1,240,005)
USD	(19,066)	(78,812)	(22,781)	(70,253)	(28,887)	(113,516)	(19,066)	(78,812)
CHF	132,220	(200,592)	74,317	(88,124)	94,988	(143,302)	66,037	(98,588)
Others	26,201	(27,007)	32,349	(26,715)	41,108	(42,282)	33,846	(34,817)
Total	**1,079,289**	**(2,214,499)**	**1,360,494**	**(2,045,459)**	**1,777,237**	**(3,357,087)**	**1,549,377**	**(2,830,758)**

Sensitivity of projected net interest income as at 31 December 2018:

	+200bp	-200bp	Flattener	Steepener	Short+	Short-	IRRBB+	IRRBB
RSD	671,289	(822,091)	1,225,655	(1,220,195)	1,575,997	(2,001,711)	1,340,902	(1,689,300)
EUR	317,620	(1,080,291)	246,488	(764,100)	333,717	(1,251,302)	317,620	(1,080,291)
USD	(34,887)	(28,100)	(40,235)	(23,954)	(50,963)	(43,977)	(34,887)	(28,100)
CHF	55,426	(94,924)	29,632	(39,866)	38,548	(66,436)	27,672	(46,400)
Others	19,665	(20,221)	23,701	(19,469)	30,144	(30,874)	26,015	(26,671)
Total	**1,029,113**	**(2,045,627)**	**1,485,241**	**(2,067,584)**	**1,927,443**	**(3,394,300)**	**1,677,322**	**(2,870,762)**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

The following tables provide an analysis of exposure to interest risk by period to maturity as at 31 December 2019:

	Carrying amount	Up to 1 months	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Financial assets							
Cash and balances with central banks	69,905,262	27,645,952	-	-	-	-	42,259,310
Receivables arising from derivatives	21,442	-	-	-	-	-	21,442
Securities	54,502,443	482,405	1,109,635	9,985,443	40,288,345	2,636,615	-
Loans and receivables to banks and other financial institutions	13,550,612	8,214,259	315,114	932,941	3,940,943	145,788	1,567
Loans and receivables to customers	171,584,719	22,890,695	72,950,737	51,804,396	16,777,859	6,980,990	180,042
Receivables from financial derivatives held for hedging against risks	152,072	-	152,072	-	-	-	-
Investments in subsidiaries	1,293,551	-	-	-	-	-	1,293,551
Total	**311,010,101**	**59,233,311**	**74,527,558**	**62,722,780**	**61,007,147**	**9,763,393**	**43,755,912**
Financial liabilities							
Liabilities arising from derivatives	18,516	-	-	-	-	-	18,516
Deposits and other liabilities from banks, other financial institutions and central bank	4,287,532	3,762,803	-	345,723	172,861	-	6,145
Deposits and other liabilities from other customers	251,813,778	240,611,474	1,038,102	2,961,982	4,302,653	2,875,431	24,136
Liabilities arising from financial derivatives held for hedging against risks	234,945	-	234,945	-	-	-	-
Total	**256,354,771**	**244,374,277**	**1,273,047**	**3,307,705**	**4,475,514**	**2,875,431**	**48,797**
Off-balance sheet items							
Derivatives held for risk management	(71,146)	22,740	3,711,420	13,878	-	(3,819,184)	-
Interest sensitivity gap as of 31 December 2019	**54,584,184**	**(185,118,226)**	**76,965,931**	**59,428,953**	**356,531,633**	**3,068,778**	**43,707,115**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

The following tables provide an analysis of exposure to interest risk by period to maturity as at 31 December 2018:

	Carrying amount	Up to 1 months	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Financial assets							
Cash and balances with central banks	71,884,119	21,942,488	-	-	-	-	49,941,631
Receivables arising from derivatives	16,141	-	-	-	-	-	16,141
Securities	50,328,204	5,095,035	10,287,104	11,019,939	23,925,985	-	141
Loans and receivables to banks and other financial institutions	11,558,104	6,336,641	793,217	1,308,184	3,118,368	-	1,694
Loans and receivables to customers	150,387,617	18,883,415	66,670,815	43,880,803	15,029,118	5,755,882	167.584
Receivables from financial derivatives held for hedging against risks	77,362	-	77,362	-	-	-	-
Investments in subsidiaries	1,028,323	-	-	-	-	-	1,028,323
Total	**285,279,870**	**52,257,579**	**77,828,498**	**56,208,926**	**42,073,471**	**5,755,882**	**51,155,514**
Financial liabilities							
Liabilities arising from derivatives	6,959	-	-	-	-	-	6,959
Deposits and other liabilities from banks, other financial institutions and central bank	3,038,158	2,168,666	-	347,492	521,238	-	762
Deposits and other liabilities from other customers	227,889,691	214,723,469	1,004,119	3,742,295	4,888,679	3,527,699	3,430
Liabilities arising from financial derivatives held for hedging against risks	71,709	-	71,709	-	-	-	-
Total	**231,006,517**	**216,892,135**	**1,075,828**	**4,089,787**	**5,409,917**	**3,527,699**	**11,151**
Off-balance sheet items							
Derivatives held for risk management	153,456	21,355	4,168,449	-	-	(4,036,349)	
Interest sensitivity gap as of 31 December 2018	**54,426,809**	**(164,613,201)**	**80,921,119**	**52,119,139**	**36,663,554**	**(1,808,166)**	**51,144,363**

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

/iii/ Pricing risk of equity securities

Shares which the Bank holds with intention to be sold in the near terms are classifies in trading book (Equity Trading Book) and are exposed to general and specific pricing risk.

General pricing risk represents exposure to risk of change in market prices of shares as a result of general conditions and changes on the market. Specific pricing risk represents the risk of change in market prices of shares as a consequence of change in factors related to issuer of shares.

Mark-to-Model value of shares from trading portfolio as at 31 December 2019 amounts RSD 0 thousands (2018: RSD 141 thousands).

Having in mind value and structure of equity securities trading portfolio, as well as movement in shares prices on Belgrade stock exchange – Belex, sensitivity analyses for this portfolio has not been performed based on the assessment that change in the shares prices will not have significant impact on the Bank's net profit.

/iv/ Foreign currency risk

The foreign exchange risk is defined as the earnings sensitivity of an instrument or portfolio due to changes in foreign exchange rates. The Bank is exposed to foreign currency risk through its exposure in banking book and in trading book. Foreign currency risk is measured and disclosed through open foreign exchange position.

Open foreign exchange position of the Bank represents the difference between the Bank's receivables and liabilities in foreign currency, as well as receivables and liabilities in RSD that are indexed by foreign exchange clause (including absolute amount of open position for gold).

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

Sensitivity analysis consisting of two scenarios based on reasonable possible changes in foreign exchange rates, with all other variables held constant is preformed showing the possible effect on profit and loss:
a) proportional foreign exchange rate movements of +10% (FCY appreciation),
b) proportional foreign exchange rate movements of -5% (RSD appreciation).

	USD	EUR	CHF	Other currencies	Overall effect
Net currency gap as at 31 December 2019	**35,954**	**(1,026,396)**	**12,606**	**20,413**	**-**
effect + 10% (foreign currency appreciation)	3,594	(102,640)	1,261	2,041	(95,744)
effect -5% (RSD appreciation)	(1,797)	51,320	(630)	(1,021)	47,872
Net currency gap as at 31 December 2018	**58,965**	**(508,685)**	**14,524**	**5,562**	**-**
effect + 10% (foreign currency appreciation)	5,896	(50,868)	1,452	556	(42,964)
effect -5% (RSD appreciation)	(2,948)	25,434	(726)	(278)	21,482

Foreign currency risk arises in cases of mismatch in assets and liabilities denominated in foreign currencies. The Bank ensures that its foreign currency position as far as practical is minimized.

The Bank seeks to minimize exposure to foreign currency risk by disbursement of currency-link loans.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

The following tables summarizes the net foreign currency position of the Bank's assets and liabilities as at 31 December 2019:

	USD	EUR*	CHF	Other	RSD	Total
Financial assets						
Cash and balances with central banks	662,274	33,136,516	4,545,217	399,147	31,162,108	69,905,262
Receivables arising from derivatives	-	-	-	-	21,442	121,442
Securities	10,760,908	8,372,785	-	-	35,368,750	54,502,443
Loans and receivables to banks and other financial institutions	911,438	6,498,083	70,879	94,808	5,975,404	13,550,612
Loans and receivables to other customers	205,949	118,441,199	187,004	375	52,750,192	171,584,719
Receivables from financial derivatives held for hedging against risks	-	-	-	-	152,072	152,072
Investments in subsidiaries	-	-	-	-	1,293,551	1,293,551
Total	**12,540,569**	**166,448,583,**	**4,803,100**	**494,330**	**126,723,519**	**311,010,101**
Financial liabilities						
Liabilities arising from derivatives	-	-	-	-	18,516	18,516
Deposits and other liabilities from banks, other financial institutions and central bank	411,837	2,528,033	26,221	4,377	1,317,064	4,287,532
Deposits and other liabilities from other customers	16,988,195	148,260,936	9,974,188	3,041,294	73,549,165	251,813,778
Liabilities arising from financial derivatives held for hedging against risks	-	72,451	-	-	162,494	234,945
Total	**17,400,032**	**150,861,420**	**10,000,409**	**3,045,671**	**75,047,239**	**256,354,771**
Off-balance - net position						
FX Spot	363,484	2,135,404	(11,924)	(135,796)	(2,352,030)	(862)
FX SWAP	4,935,321	(16,095,977)	5,221,947	2,714,866	3,266,000	42,157
FX forward	(396,794)	(699,320)	-	(3,824)	1,058,643	(41,295)
Total	**4,902,011**	**(14,659,893)**	**5,210,023**	**2,575,246**	**1,972,613**	**-**
Net currency gap as of 31 December 2019	**42,548**	**927,270**	**12,714**	**23,905**	**53,648,893**	**54,655,330**

*EUR includes FX clause

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

The following tables summarizes the net foreign currency position of the Bank's assets and liabilities as at 31 December 2018:

	USD	EUR*	CHF	Other	RSD	Total
Financial assets						
Cash and balances with central banks	553,013	41,030,395	600,090	476,554	29,224,067	71,884,119
Receivables arising from derivatives	-	-	-	-	16,141	16,141
Securities	10,562,350	6,722,374	-	-	33,043,480	50,328,204
Loans and receivables to banks and other financial institutions	2,855,622	8,078,703	264,859	51,270	307,650	11,558,104
Loans and receivables to other customers	374,810	99,216,385	4,841,720	108	45,954,594	150,387,617
Receivables from financial derivatives held for hedging against risks	-	8,458	-	-	68,904	77,362
Investments in subsidiaries	-	-	-	-	1,028,323	1,028,323
Total	**14,345,795**	**155,056,315**	**5,706,669**	**527,932**	**109,643,159**	**285,279,870**
Financial liabilities						
Liabilities arising from derivatives	-	-	-	-	6,959	6,959
Deposits and other liabilities from banks, other financial institutions and central bank	41,530	1,436,852	23,672	3,354	1,532,750	3,038,158
Deposits and other liabilities from other customers	16,914,809	142,247,824	9,178,222	2,909,544	56,639,292	227,889,691
Liabilities arising from financial derivatives held for hedging against risks	-	20,196	-	-	51,513	71,709
Total	**16,956,339**	**143,704,872**	**9,201,894**	**2,912,898**	**58,230,514**	**231,006,517**
Off-balance - net position						
FX Spot	423,434	148,865	(28,344)	(71,142)	(473,030)	(217)
FX SWAP	2,718,030	(9,705,090)	3,538,167	2,458,222	1,039,222	48,551
FX forward	(461,754)	(1,849,198)	-	-	2,262,618	(48,334)
Total	**2,679,710**	**(11,405,423)**	**3,509,823**	**2,387,080**	**2,828,810**	
Net currency gap as of 31 December 2018	**69,166**	**(53,980)**	**14,598**	**2,114**	**54,241,455**	**54,273,353**

*EUR includes FX clause

4. FINANCIAL RISK MANAGEMENT (continued)

(e) Operational risk

Operational risk is defined as the risk of loss resulting from employees omissions and errors, inadequate or failed internal procedures and processes, inadequate information management or other systems management, as well as from unexpected external events. This definition includes legal risk, but excludes strategic and reputation risk.

The goal of operational risk management is to balance cost and risk within the constraints of the risk appetite of the Bank, but to be consistent with the prudent management required of a financial organization.

Risk Management priorities are identified through a combination of experience and observation, internal audit assessment and knowledge, internal controls, detailed risk assessment work, change management procedures, incident reports and common sense.

Assessment of level of exposure to operational risk depends on event type, frequency of repetition and financial impact on the Bank business.

Control, monitoring, reporting on identified and assets sources of operational risk, as well as measures that are performed in order to mitigate negative impact, are integral part of operational risk management.

Risk management activities are aimed at identifying the existing sources of operational risk, as well as potential sources of such risk that may arise due to the introduction of new business products, systems or activities, Identification of sources of risk includes:

- Internal fraud and abuse;
- External fraud and abuse;
- Omissions in the recruitment and work safety systems;
- Problems in customer relations management, product launching and business procedures - if they are inadequate;
- Damage incurred to the Bank's property due to natural disasters and other events;
- Disruptions in the Bank's organization and errors in the functioning of existing systems;
- Implementation of business procedures and decisions.

The Bank monitors sources of operational risk determined in line with the Bank's organization and activity, primarily comprising of: corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, and retail brokerage.

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

The Bank's objectives in capital management are:

- To comply with the capital requirements set by the National Bank of Serbia, as supervisor and regulator of the banking markets;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the National bank of Serbia, for supervisory purposes. The Bank's regulator sets and monitors capital requirements for the Bank. The required information is filed with the regulator on a quarterly basis, The Bank is directly supervised by National bank of Serbia.

The Bank is obliged to comply with the provision of the Basel Committee framework, as implemented by National bank of Serbia. The Bank uses standardised approaches to credit and operational risk management. The Banks calculates requirements for market risk in accordance with local regulations defined in the Decision on Capital Adequacy.

The local regulations require each bank to:

- hold the minimum level of the monetary contributed capital of EUR 10 million;
- maintain a Common Equity Tier 1 (CET 1) capital ratio at or above the agreed minimum of 4,5%;
- maintain a Tier 1 ratio at or above the agreed minimum of 6%;
- maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Bank's regulatory capital is the sum total of its core capital (Tier-1 capital) and Tier-2 capital, where Tire 1 capital is the sum of Common Equity Tier 1 („CET 1") capital and Additional Tire 1 capital.

Common Equity Tier 1 capital of the Bank is the sum of the following elements, corrected by regulatory adjustments, less deductibles:

- Shares and other capital instruments which fulfil the requirements defined in the Methodology for CET 1 instruments;
- Share premium of CET 1 instruments;
- Profit of the bank;
- Revaluation reserves and other unrealised gain;
- Reserves from profit and other reserves of the bank;
- Funds for general banking risk.

Profit, revaluation reserves and other unrealised gains, reserves from profit and other reserves and funds for general banking risk shall be included in CET 1 capital only when they are available to the bank for unconditional, unrestricted and immediate use to cover risks or losses as soon as these occur.

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management (continued)

Profit of the Bank included in CET 1 capital shall be made up of retained earnings from preceding years free of any future liabilities.

A Bank may include in CET 1 capital the interim profit free of any future liabilities only with prior consent of the Board of Directors. In such case, the amount of interim profit is reduced by the projected amount of income tax, liabilities for dividends and all other liabilities payable from profit (other participations in profit distribution, all liabilities or circumstances that occurred during the reporting period and are likely to lead to a reduction in the Bank's profit) which can be predicted at the moment of inclusion of the profit in CET 1 capital.

Regulatory adjustments of CET 1 capital are:

- Increase in its equity that results from the securitization of exposures;
- The fair value reserves related to gains and losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows;
- Gains and losses on liabilities on the Bank valued at fair value, that result from changes in the Bank's credit quality;
- Gains and losses on derivative liabilities valued at fair value, that result from the Bank's credit risk and the bank shall not offset these gains and losses with those arising from its counterparty credit risk.

Deductibles from CET 1 capital are:

- Losses from the current year and preceding years, as well as unrealized losses;
- Intangible assets, including goodwill, reduced by the amount of deferred tax liabilities that would be extinguished if the intangible assets became impaired or were derecognized under the IFRS/IAS;
- Deferred tax assets that rely on the Bank's future profitability;
- Defined benefit pension fund assets on the balance sheet of the Bank;
- Direct, indirect and synthetic holdings by a Bank of own CET 1 instruments, including own CET 1 instruments that a Bank is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation;
- Direct, indirect and synthetic holdings by a Bank of the CET 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the Bank, and which have been designed to inflate artificially the capital of the Bank;
- The applicable amount of direct, indirect and synthetic holdings by the Bank of the CET 1 instruments of financial sector entities where the Bank does not have a significant investment in those entities;
- The applicable amount of direct, indirect and synthetic holdings by the Bank of the CET 1 instruments of financial sector entities where the Bank has a significant investment in those entities;
- The amounts of items required to be deducted from the Additional Tier 1 capital that exceeds the Additional Tier 1 capital of the Bank;
- The exposure amounts of items which qualify for a risk weight of 1,250% where the Bank deducts that exposure amount from the amount of CET 1 items as an alternative to applying a risk weight of 1,250%;
- Any tax charge relating to CET 1 items foreseeable at the moments of its calculation, except where the Bank suitably adjust the amount of CET 1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risk of losses,

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management (continued)

- Gross amount of receivables from the borrower–natural person (other than a farmer or an entrepreneur) arising from granted consumer, cash or other loans disclosed in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and contents of accounts in the Chart of Accounts for Banks where the level of the borrower's debt-to-income ratio before loan approval was higher than the percentage defined in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items or where this percentage will be higher due to loan approval. This deductible shall be applied regardless of whether following the loan approval the level of the borrower's debt-to-income ratio has dropped below that percentage;
- Gross amount of receivables from the borrower–natural person (other than a farmer or an entrepreneur) arising from granted consumer, cash or other loans disclosed in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and contents of accounts in the Chart of Accounts for Banks where agreed maturity is:
  - Longer than 2920 days – if the loans were approved in the period from 01.01. until 31.12.2019,
  - Longer than 2555 days – if the loans were approved in the period from 01.01. until 31.12.2020,
- Longer than 2190 days – if the loans were approved from 01.01.2021;
- Gross amount of receivables from the borrower–natural person (other than a farmer or an entrepreneur) arising from consumer loans approved for the purchase of motor vehicles, disclosed in account 102 in n accordance with the decision prescribing the Chart of Accounts and contents of accounts in the Chart of Accounts for Banks, where agreed maturity is longer than 2920 days, if these loans were approved after 01.01.2019.

Additional Tier 1 capital is the sum of the following elements less deductibles:

- Shares and other capital instruments which fulfil the requirements defined in the Methodology for Additional Tier 1 capital;
- Share premium of Additional Tier 1 capital,.

Deductibles from Additional Tier 1 capital are:

- Direct, indirect and synthetic holdings by a Bank of own Additional Tier 1 instruments, including instruments that a Bank is obliged to purchase by virtue of an existing contractual obligation;
- Direct, indirect and synthetic holdings by a Bank of the Additional Tier 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the Bank, and which have been designed to inflate artificially the capital of the Bank;
- The applicable amount of direct, indirect and synthetic holdings by the Bank of the Additional Tier 1 instruments of financial sector entities where the Bank does not have a significant investment in those entities;
- Direct, indirect and synthetic holdings by the Bank of the Additional Tier 1 instruments of financial sector entities where the Bank has a significant investment in those entities, excluding underwriting positions with maturity of five working days or less;
- The amounts of items required to be deducted from the Tier 2 capital that exceeds the Tier 2 capital of the Bank;

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management (continued)

- Any tax charge relating to Additional Tier 1 items foreseeable at the moments of its calculation, except where the Bank suitably adjust the amount of Additional Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risk of losses.

Tier 2 capital is the sum of the following elements less deductibles:

- Shares and other capital instruments and subordinated liabilities, which fulfil the requirements defined in the Methodology for Tier s capital;
- Share premium of Tier 2 capital;
- General credit risk adjustments, gross of tax effects, or up to 1,25% of risk-weighted exposures for credit risk.

The extent to which Tier 2 instruments and/or subordinated liabilities are included in the calculation of Tier 2 capital of the Bank during the final five years before the instruments mature is calculated as follows: the quotient of their nominal value and/or the principal amount, on the first day of the final five year period before their maturity and the number of calendar days in that period is multiplied by the number of the remaining calendar days of maturity of the instruments or subordinated liabilities on the day of the calculation.

Deductibles for Tier 2 capital are:

- Direct, indirect and synthetic holdings by a Bank of own Tier 2 instruments and subordinated liabilities, including instruments that a Bank is obliged to purchase by virtue of an existing contractual obligation;
- Direct, indirect and synthetic holdings by a Bank of the Tier 2 instruments and subordinated liabilities of financial sector entities where those entities have a reciprocal cross holding with the Bank, and which have been designed to inflate artificially the capital of the Bank;
- The applicable amount of direct, indirect and synthetic holdings by the Bank of the Tier 2 instruments and subordinated liabilities of financial sector entities where the Bank does not have a significant investment in those entities;
- Direct, indirect and synthetic holdings by the Bank of the Tier 2 instruments and financial liabilities of financial sector entities where the Bank has a significant investment in those entities, excluding underwriting positions with maturity of five working days or less.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specific requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position.

The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business, The impact on the level of capital on shareholder's return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with the advantages and security afforded by a sound capital position or with greater gearing.

The Bank has complied with all externally imposed capital requirements through the period.

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management (continued)

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December:

	2019	2018
Share capital	27,466,158	27,466,158
Revaluation reserves and other unrealized gains/losses	858,359	388,599
Reserves from profit, other reserves and reserves for banking risks	23,353,465	23,353,465
Regulatory adjustments to the value of the regulatory capital	33,977	(24,996)
Other intangible assets decreased by deferred tax liabilities	(731,406)	(647,755)
Equity participation in financial sector exceeding 10% of their equity	-	-
Excess of qualified participations in entities in non-financial sectors	-	-
Required reserves for potential losses	-	(14,682,113)
Gross amount of receivables from clients with debt-to-income ratio higher then 60%	(1,913,096)	
Gross amount of receivables from clients with contractual maturity over defined threshold	(450,800)	
CET 1	48,616,657	35,853,358
Additional share capital	-	-
Tier 1 capital	48,616,657	35,853,358
Tier 2 capital	-	-
Total capital	**48,616,657**	**35,853,358**
Capital requirements		
Credit risk	15,795,704	13,109,973
Foreign currency risk	82,344	-
Pricing risk	24,501	9,285
Operational risk	2,375,876	2,246,678
Capital adequacy ratio	**21.28%**	**18.67%**

All amounts expressed in thousand of RSD, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management (continued)

All prescribed statutory requirements for the years ended 31 December are presented in the table below:

	Regulatory requirements	2019	2018
CET 1	Min 4.5%	21.28%	18.67%
T1	Min 6%	21.28%	18.67%
Total capital adequacy ratio	Min 8/	21.28%	18.67%
Regulatory capital	Min EUR 10 million	EUR 413 mil,	EUR 303 mil,
Capital asset ratio	Max 60%	12.70%	13.36%
Ratio of large and the largest individual exposures in relation to capital	Max 400%	79.57%	99.19%
Liquidity ratio- narrow	Min 0.7	1.64	1.59
Liquidity ratio - wider	Min 1	2.00	2.14
Foreign currency risk ratio	Max 20%	2.12%	1.47%
Exposure to a single party or a group of related parties *	Max 25%	16.17%	22.07%

*The largest exposure to a single entity

The Bank uses regulatory capital adequacy ratio in order to monitor its capital base. The National bank of Serbia approach to such measurement, based upon Basel methodology, is primarily based on monitoring the relationship of the capital requirements to available capital resources.

The allocation of capital between specific activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities, In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular activity not falling below the minimum required for regulatory purposes.

Although optimisation of the return on risk-adjusted capital is the principle basis used in determining how capital is allocated to particular activities, it is not the sole basis used for decision-making, Account is also taken of synergies with other activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the management.

5. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values stated for financial instruments are the amount for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values are calculated using the market information available at the reporting date and individual Bank's valuation methods.

The fair values of certain financial instruments stated with their nominal values are approximately equivalent to their carrying amounts. These include cash as well as receivables and liabilities without a defined maturity or fixed interest rate, such as credit cards and current accounts. For other receivables and liabilities, future anticipated cash flows are discounted to their present value using appropriate interest rates, which reflect current market conditions and specifics of related sub-portfolios. Having in mind that variable interest rates are agreed for the majority of financial assets and liabilities of the Bank, changes in current interest rates lead to changes in agreed interest rates, Management of the Bank is of the opinion that, giving ordinary business activities of the Bank and its general policies, there are no significant differences between carrying amount of assets and liabilities and their fair values.

Quoted market prices are used for exchange-traded securities. The fair value of the remaining securities is calculated as the net present value of future anticipated cash flows.

The fair values of currency derivatives are calculated on the basis of discounted, anticipated future cash flows. In doing so, the Bank applies the market rates applicable for the remaining maturity of the financial instruments.

The fair values of irrevocable credit commitments and contingent liabilities are the same as their carrying amounts.

Valuation of financial instruments

The Bank's accounting policy on fair value measurement is disclosed in accounting policy 3(k) (vi).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

5. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exists and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter such as like interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

All amounts expressed in thousand of RSD, unless otherwise stated

5. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
31 December 2019				
Receivables arising from derivatives	173,514	-	-	173,514
Securities	10,760,908	23,913,239		34,674,147
Loans and receivables from customers	-	-	18,535	18,535
	10,934,422	**23,913,239**	**-**	**34,866,196**
Liabilities arising from derivatives	18,516	-	-	18,516
Liabilities arising from financial derivatives held for hedging against risks	234,945	-	-	234,945
	253,461	**-**	**-**	**253,461**
31 December 2018				
Receivables arising from derivatives	93,503		-	93,503
Securities	11,751,814	13,063,504		24,815,318
	11,845,317	**13,063,504**	**-**	**24,908,821**
Liabilities arising from derivatives	6,959	-	-	6,959
Liabilities arising from financial derivatives held for hedging against risks	71,709	-	-	71,709
	78,668	**-**	**-**	**78,668**

The effects of changes in fair value of financial instruments measured at fair value through profit and loss are as follows:

	2019	2018
Gains from change in fair value of derivatives	5,301,104	2,034,465
Gains from change in fair value of financial assets measured at FVTPL	195,423	354,767
	5,496,527	**2,389,232**
Losses from change in fair value of derivatives	(5,307,360)	(2,025,399)
Losses from change in fair value of financial assets measured at FVTPL	(65,625)	(61,494)
	(5,372,985)	(2,086,893)
Net gain from change in fair value of financial instruments	123,542	302,339

All amounts expressed in thousand of RSD, unless otherwise stated

5. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total	Carrying Amount
Balance as at 31 December 2019					
Cash and balances with central banks	-	69,905,262	-	69,905,262	69,905,262
Loans and receivables to banks and other financial institutions	-	-	13,550,612	13,550,612	13,550,612
Loans and receivables to customers	-	-	176,663,198	176,663,198	171,566,184
Securities at amortized costs	-	20,106,285	-	20,106,285	19,828,296
	-	**90,011,547**	**190,213,810**	**280,225,357**	**274,853,354**
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	4,287,532	4,287,532	4,287,532
Deposits and other liabilities to other customers	-	-	251,813,778	251,813,778	251,813,778
	-	**-**	**256,101,310**	**256,101,310**	**256,101,310**
Balance as at 31 December 2018					
Cash and balances with central banks	-	71,884,119	-	71,884,119	71,884,119
Loans and receivables to banks and other financial institutions	-	-	11,558,104	11,558,104	11,558,104
Loans and receivables to customers	-	-	150,387,617	150,387,617	150,387,617
Securities at amortized costs	-	26,899,182	-	26,899,182	25,512,888
	-	**98,783,301**	**161,945,721**	**260,729,022**	**259,342,728**
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	3,038,158	3,038,158	3,038,158
Deposits and other liabilities to other customers	-	-	227,889,691	227,889,691	227,889,691
	-	**-**	**230,927,849**	**230,927,849**	**230,927,849**

Where available, the fair value of loans and receivables is based on observable market transactions. Where such data are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Inputs used in the valuation techniques include expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral.

5. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

To improve the accuracy of the valuation estimate for retail and smaller commercial loans, loans are grouped into portfolios with similar characteristics such as product and borrower type, currency, remaining maturity etc.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms, such as deposit type, currency, customer type and remaining maturity. The fair value of deposits payable on demand is the amount payable at the reporting date.

Below are disclosed methods and valuation and assumption used for determination of fair value for financial instruments which are not measured at fair value in financial statements.

Assets and liabilities with fair value approximately equivalent to their carrying amounts

For certain financial instruments without defined maturity of with short maturity (less than 1 year), the assumption is that their carrying amounts is approximately equivalent to their fair values. This assumption is also used for sight (demand) deposits, saving deposits without defined maturities, as well as for financial instruments with floating interest rates.

Financial instruments with fixed interest rates

Fair value of financial instruments with fixed interest rate measured at amortised costs is assessed based on comparison initially agreed interest rates and current interest rates for similar financial instruments. Determination of fair value of loans and deposits with fixed interest rates is based on discounting of future anticipated cash flows to their present value, using current interest rates for financial instruments with similar characteristics, such as product type, customer type, remaining maturity and currency.

All amounts expressed in thousand of RSD, unless otherwise stated

6. NET INTEREST INCOME

Net interest income comprises:

	2019	2018
Interest income		
Central Bank	310,325	412,613
Banks		
- local banks	15,272	13,233
- foreign banks	50,925	47,709
Corporate customers	2,482,443	2,278,389
Public sector	2	7
Private individuals	5,576,856	5,396,555
Securities	1,806,288	1,776,856
Foreign entities	47,955	46,422
	10,290,066	**9,971,784**
Interest expense		
Banks		
- local banks	(2,283)	(1,639)
- foreign banks	(44,875)	(34,142)
Corporate customers	(58,826)	(18,190)
Public sector	(15,660)	(17,145)
Private individuals	(23,861)	(33,158)
Securities	-	(13,802)
Foreign entities	(38,270)	(59,696)
	(183,775)	**(177,772)**
Net interest income	**10,106,291**	**9,794,012**

From the total interest income for the year ended 31 December 2019, an amount of RSD 3,359 thousand (2018: RSD 1,508 thousand) relates to accrued interest on impaired financial assets.

Interest income for 2018 also includes income from orginated fees which form an integral part of the effective interest rate in the amount od RSD 544,838 thousand (2018: RSD 471,936 thousand).

All amounts expressed in thousand of RSD, unless otherwise stated

7. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	2019	2018
Fee and commission income		
Insurance agency fees	305,490	237,296
Card business fees and fees for maintenance of current accounts	2,521,432	2,504,587
Payment transfer business	896,527	861,448
Loan administration and guarantee business	368,341	334,630
Fees for nostro and loro payments	528,370	467,323
Fees for loan granting, processing and administration (commitments) and prepayment fees	182,144	258,153
Fees for participation in sales on POS terminals	299,110	220,123
Fees for warnings sent to clients	88,719	88,043
Fees for cash payments	54,453	63,511
Agent fees - sale of leasing product and investment funds units	122,213	102,854
Fees for securiries transactions	47,770	48,423
Fees for Credit Bureau	71,123	52,792
Other fees and commissions	636,778	440,791
	6,122,470	5,679,974
Fee and commission expenses		
Payment transfer business in the country	(237,510)	(272,674)
Payment transfer business abroad	(1,027,259)	(810,468)
Loan insurance fees	(165,581)	(152,988)
Fees on MIGA guarantee	(96,586)	(103,473)
Fees for Credit Bureau	(102,688)	(82,640)
Fees for SMS massages setn to clients	(61,893)	(41,123)
Other fees and commissions	(86,418)	(111,189)
	(1,777,935)	(1,574,555)
Net fee and commission income	4,344,535	4,105,419

All amounts expressed in thousand of RSD, unless otherwise stated

8. NET GAINS ON FOREIGN EXCHANGE DIFFERENCES AND EFFECTS OF FOREIGN CURRENCY CLAUSE

Net gains on foreign exchange differences and effects of foreign currency clause include:

	2019	2018
Gains on foreign exchange differences and effects of foreign currency clause		
Derivatives	3,646,159	1,577,385
Spot transactions	2,046,972	1,978,751
Cash in vault, foreign currency accounts	819,310	786,144
Obligatory reserves	61,628	157,479
Loans and other receivables in foreign currency	866,709	1,501,490
Loans and other receivables linked to foreign currency	592,501	1,325,114
Deposits and borrowings in foreign currency	3,140,856	3,274,271
Securities	930,330	1,095,811
Other	14,361	6,385
	12,118,826	**11,702,830**
Losses on foreign exchange differences and effects of foreign currency clause		
Derivatives	(3,136,429)	(1,532,635)
Spot transactions	(442,195)	(748,274)
Cash in vault, foreign currency accounts	(422,748)	(482,798)
Obligatory reserves	(168,406)	(195,008)
Loans and other receivables in foreign currency	(791,857)	(1,343,027)
Loans and other receivables linked to foreign currency	(1,037,669)	(1,329,317)
Deposits and borrowings in foreign currency	(3,050,403)	(3,830,222)
Securities	(789,149)	(542,697)
Other	(4,484)	(4,541)
	(9,843,340)	**(10,008,519)**
Net gains on foreign exchange differences and effects of foreign currency clause	**2,275,486**	**1,694,311**

All amounts expressed in thousand of RSD, unless otherwise stated

9. NET IMPAIRMENT GAIN/(LOSS) ON FINANCIAL ASSETS

Net impairment gain/(loss) on financial assets consists of:

	2019	2018
Release of impairment allowance		
Release of impairment allowance for financial assets	6,339,661	4,125,147
Release of impairment allowance for contingent liabilities	778,424	699,694
Interest income of impaired assets	3,359	8,730
Income on collection of written-off receivables	819,765	792,499
Gains on the modification of financial instruments	617	3,135
	7,941,826	**5,629,205**
Impairment losses on financial assets		
Impairment allowance for financial assets	(6,916,359)	(5,255,698)
Impairment allowance for contingent liabilities	(952,401)	(654,245)
Impairment allowance for interest on impaired loans	(23,255)	(19,691)
Write-offs	(371,899)	(9,123)
Losses based on the modification of financial instruments	(2,143)	(36,471)
	(8,266,057)	**(5,975,228)**
Net impairment gain/(loss) on financial assets	**(324,231)**	**(346,023)**

10. NET GAIN/(LOSS) ON DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST AND OTHER OPERATING INCOME

10.1 Net gains and losses on derecognition of financial instruments measured at amortized costs relate to:

	2019	2018
Net gain on sale of financial instriments	75,736	760,742
Net impact of CHF-indexed mortgage loans conversion	(382,628)	-
Net gains/(losses) on derecognition of financial instruments measured at amortized costs	**(306,892)**	**760,742**

Net loss on derecognition of financial instruments measured at amortized costs in the amount of RSD 382,628 thousand represent impact of derecognition of mortgage CHF-indexed loans which are converted in EUR-indexed mortgage loans in accordance with the Law on conversion of mortgage loans indexed in swiss francs, which become effective in April 2019. The Bank converted 1,359 loan accounts, out of which:

- 1,286 loan accounts disclosed in the balance-sheet, where the total exposure of the Bank amounted EUR 41.38 mio; and
- 73 written-off loan accounts, where the total exposure of the Bank amounted EUR 2.80 mio.

Conversion has been performed for 88% of the total CHF-indexed mortgage portfolio of the Bank, out of which 99% of balance-sheet exposure and 41% of off-balance sheet exposure was converted.

All amounts expressed in thousand of RSD, unless otherwise stated

10. NET GAIN/(LOSS) ON DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST AND OTHER OPERATING INCOME (continued)

10.2 Other operating income comprises:

	2019	2018
Rental income	35,309	30,958
Refund of expenses from insurance of loans	38,920	47,238
Gain on sale of properties taken in process of loan collection	75,368	-
Other operating income	25,446	22,722
Total	175,043	100,918

11. PERSONNEL EXPENSES

Personnel expenses include:

	2019	2018
Wages and salaries	2,369,239	2,291,045
Tax on wages and salaries	291,632	282,072
Contributions on wages and salaries	561,144	534,307
Provisions for bonus, pension, vacation and others employee benefits	261,887	223,454
Release of provisions for pension	(36,433)	(85,302)
Release of provisions for vacation	(105,181)	(105,722)
Release of provisions for SIP	-	(112)
Release of provisions for bonus payment	(52,176)	(54,589)
Other personal expenses	17,717	19,610
Total	3,307,829	3,104,763

12. OTHER INCOME AND OTHER EXPENSES

12.1 Other income comprises of:

	2019	2018
Reversal of unused provisions for liabilities	150	1,267
Income from disposal of property and equipment	6,201	11,988
Income from reduction of liabilities	390	125
Surplus	738	2,689
Other income	173,086	197,500
Total	180,565	213,569

All amounts expressed in thousand of RSD, unless otherwise stated

12. OTHER INCOME AND OTHER EXPENSES (continued)

12.2 Other expenses comprise of:

	2019	2018
Rental expenses	118,329	584,098
Costs of indirect taxes and contributions	552,653	544,277
Advertising, PR and promotional expenses	237,965	365,043
Costs of fixed assets maintenance	619,833	584,595
Other immaterial costs	768,840	705,337
Training expenses for staff	38,480	37,151
The cost of office supplies	94,047	101,169
Advisory and consulting expenses	329,578	341,048
Communication expenses	148,360	152,755
Security expenses	139,420	132,928
Other material costs and services	105,028	104,003
The costs of business trips	48,116	43,417
The cost of postal services	20,999	21,158
Other materials costs	161,263	164,092
Insurance premiums	1,217,140	1,071,055
Tax expenses	66,868	72,379
The costs of bringing into operation of office space	16,338	24,162
Representation costs	34,720	37,257
Membership fees	6,105	6,136
Other	178,911	143,261
Increase in provisions for liabilities	291,088	88,783
Loss on sale of properties taken in process of loan collection	72,378	-
Total	5,266,459	5,324,104

Increase in provision for liabilities in the amount of RSD 291,088 thousand relates to provisions for litigations and claims (note 26.4 and 29.2).

13. INCOME TAX

13.1 Major components of income tax expenses as at 31 December are as follows:

	2019	2018
Current income tax	879,322	970,555
Deferred tax	(311)	46,539
Total	879,011	1,017,094

All amounts expressed in thousand of RSD, unless otherwise stated

13. INCOME TAX (continued)

13.2 Reconciliation of the effective tax rate is presented as follows:

	2019	2018
Profit for the year before tax	6,992,894	7,645,303
Income tax using the domestic corporation tax rate of 15%	1,048,934	1,146,795
Reconciliation of effective interest rate:		
Non-deductible expenses	7,493	21,803
Transfer prices adjustment	33,111	29,615
Non-taxable income	(233,287)	(248,307)
Difference in net carrying amount of asset for tax and financial reporting purpose	11,585	41,118
Employee benefits	12,234	10,995
Other	(1,059)	15,075
Tax expenses	**879,011**	**1,017,094**
Effective tax rate	**12,57%**	**13,30%**

13.3 Change in deferred tax as at 31 December 2019 and 2018 is as follows:

	Balance as at 1 January 2019	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2019
Property and equipment	191,456	5,398	-	196,854
Employee benefits	48,098	2,587	-	50,685
Provision for legal cases	81,000	(12,127)	-	68,873
Valuation of CF hedge and financial assets at fair value through OCI	(11,027)	452	(40,829)	(51,404)
Other	(2,741)	4,001	-	1,260
Total	**306,786**	**311**	**(40,829)**	**266,268**

	Balance as at 1 January 2018	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2018
Property and equipment	233,805	(42,349)	-	191,456
Employee benefits	52,286	(4,188)	-	48,098
Provision for legal cases	68,716	12,284	-	81,000
Valuation of CF hedge and financial assets at fair value through OCI	2,000	(452)	(12,575)	(11,027)
Other	9,093	(11,834)	-	(2,741)
Total	**365,900**	**(46,539)**	**(12,575)**	**306,786**

Deferred tax is calculated by applying the tax rate of 15% for both presented periods,

All amounts expressed in thousand of RSD, unless otherwise stated

14. CASH AND BALANCES WITH CENTRAL BANKS

14.1 Cash and balances with central banks include:

	2019	2018
Cash and balances with central banks in dinar		
Giro account	20,408,929	25,156,109
Cash on hand	4,673,179	4,067,956
Deposits of liquidity surplus	6,080,000	-
	31,162,108	**29,224,065**
Cash and balances with central banks in foreign currency		
Obligatory reserves	21,565,952	21,942,487
Cash on hand	17,177,204	20,717,571
Cash deposits at the Central Registry of Securities	2	4
	38,743,158	**42,660,062**
Less: Allowance for impairment	(4)	(8)
Balance as at December 31	**69,905,262**	**71,884,119**

Changes in allowance for impairment are presented as follows:

	2019	2018
Collective allowances for impairment		
Balance as at 1 January	8	-
Charge for the year	-	1
Balance as at 1 January	**8**	**1**
Expense	9	28
Releases	(13)	(21)
Effect of foreign currency movements		
Balance as at December 31	**4**	**8**

The Bank also set aside in 2019 the obligatory reserve in accordance with the currently applicable NBS Decision on Obligatory Reserves of Banks with the National Bank of Serbia.

The rates of the obligatory Dinar reserves on Dinar deposits not indexed to a currency clause remained the same as in 2018 and were 5% on Dinar deposits maturing within two years and 0% on Dinar deposits maturing over two years.

Conversion rates were 38% for deposits maturing within two years and 30% for foreign currency deposits maturing beyond two years, and remained unchanged in 2019.

On the amount of the achieved average daily balance the Dinar obligatory reserves set aside in the accounting period not exceeding the amount of the calculated Dinar obligatory reserves the National Bank of Serbia calculated and paid interest at the rate of 1.25% p.a. up to 17 August 2019. In the period from 18 August to 17 November 2019, the interest rate was reduced to 1.00%, so that from 18 November until the end of 2019, the NBS applied an interest rate of 0.75%.

All amounts expressed in thousand of RSD, unless otherwise stated

14. CASH AND BALANCES WITH CENTRAL BANKS (continued)

14.1 Cash and balances with central banks include (continued)

FCY obligatory reserve is set aside on FCY sources of funds and Dinar sources indexed to a currency clause, During 2018, following rates for allocation of FCY obligatory reserve are applied:

- the rate of allocation of the obligatory reserve on FCY liabilities maturing beyond two years was 20%,
- the rate of allocation of the obligatory reserve on FCY liabilities maturing over two years was 13%,
- Rate for the allocation of the obligatory reserves on Dinar liabilities indexed to a currency clause was 100%.

The National Bank of Serbia pays no interest on the foreign currency obligatory reserves. In 2019 on the amount of FCY obligatory reserve which exceeds calculated amount, the National Bank of Serbia calculated interest at rate equal to 3-month Euro LIBOR plus margin of 5% p.a. Such interest was not paid by the Bank in 2019 since FCY obligatory reserve never exceed limits which trigger interest payments.

14.2 Cash in Statement of cash flow includes:

	2019	2018
Giro account	20,408,929	25,156,109
Cash on hand in dinars	4,673,179	4,067,956
Cash on hand in foreign currency	17,177,204	20,717,571
Foreign currency accounts	1,999,007	1,264,891
Balance as at December 31	**44,258,319**	**51,206,527**

15. DERIVATIVE RECEIVABLES

Financial assets at fair value through Profit and Loss comprise:

	2019	2018
Derivative receivables in local currency	21,442	16,141
Balance as at December 31	**21,442**	**16,141**

Nominal value of trading derivatives is presented in the table below:

	2019				2018			
	Nominal (Bought)	Nominal (Sold)	Net position	Fair value	Nominal (Bought)	Nominal (Sold)	Net position	Fair value
Trading derivatives								
FX Spot	2,976,023	2,976,884	(862)	(822)	2,105,617	(2,105,835	(218)	(205)
FX Forward	1,111,625	1,099,939	11,687	9,542	2,523,556	(2,501,953)	21,603	9,464
FX SWAP	44,162,454	44,162,768	(314)	(17,037)	7,862,100	(7,859,371)	(2,729	(281)
Total	48,250,102	(48,239,591)	10,511	(8,317)	12,491,273	(12,467,159)	24,114	8,978

All amounts expressed in thousand of RSD, unless otherwise stated

16. SECURITIES

Financial assets available for sale comprise of:

	2019	2018
Shares in dinars	1,328,938	141
Bonds of foreign financial institutions	16,356,547	12,875,918
Bonds of other banks - EBRD	498,498	1,884,684
Treasury bills – Ministry of Finance	35,538,712	35,584,999
Treasury bills – Ministry of Finance-conversion from CHF to EUR	786,549	-
Less: Allowance for impairment	(6,801)	(17,538)
Balance as at December 31	**54,502,443**	**50,328,204**

Changes in allowance for impairment are presented as follows:

	2019	2018
Collective allowances for impairment S-1		
Balance as at 1 January	16,933	-
Correction od the opening balance	-	10,788
Balance as at 1 January	16,933	10,788
Expense	20,967	15,264
Releases	(31,095)	(9,114)
Effect of foreign currency movements	(4)	(5)
	6,801	**16,933**
Collective allowances for impairment S-2		
Balance as at 1 January	605	-
Correction od the opening balance	-	-
Balance as at 1 January	605	-
Expense	9	605
Releases	(614)	-
Effect of foreign currency movements	-	-
	-	605
Balance as at December 31	**6,801**	**17,538**

All amounts expressed in thousand of RSD, unless otherwise stated

17. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and receivables to banks and other financial institutions include:

	2019	2018
Foreign currency account - Raiffeisen Bank International AG	206,786	223,725
Foreign currency accounts – other banks	1,792,221	1,041,167
REPO transactions	5,470,690	45
Checks in foreign currency	12	-
Liquidity and working capital loans	-	737,320
Overnight deposits in local currency	500,000	-
Overnight deposits in foreign currency	-	1,772,919
Other loans and receivables	5,573,891	4,992,816
Short-term deposit up to 7 days in foreign currency	7,752	2,804,205
	13,551,352	**11,572,197**
Less: Allowance for impairment	(740)	(14,093)
Balance as at December 31	**13,550,612**	**11,558,104**

Changes in allowance for impairment are presented as follows:

	2019	2018
Collective allowances for impairment S-1		
Balance as at 1 January	-	17,569
Correction od the opening balance	-	(17,569)
Balance as at 1 January	-	-
Expence		
Write-off	-	-
Effect of foreign currency movements	-	-
Total	**-**	**-**
Collective allowances for impairment S-2		
Balance as at 1 January	14,093	-
Correction od the opening balance	-	-
Balance as at 1 January	14,093	-
Expense	-	14,090
Releases	(13,353)	-
Effect of foreign currency movements	-	3
Total	**740**	**14,093**
Balance as at December 31	**740**	**14,093**

All amounts expressed in thousand of RSD, unless otherwise stated

18. LOANS AND RECEIVABLES TO CUSTOMERS

Loans and receivables to customers consist of:

	Gross 31.12.2019	Allowance 31.12.2019	Net 31.12.2019	31.12.2018
Foreign currency accounts and checks in foreign currency	7,120	-	7,120	4,434
Overdrafts	4,288,075	169,454	4,118,621	4,571,446
Consumer loans	242,678	17,601	225,077	275,674
Liquidity and working capital loans	51,100,557	690,210	50,410,347	45,122,663
Loans for working capital-at fair value	18,535	-	18,535	75,240
Investment loans	29,367,785	216,200	29,151,585	23,369,151
Housing loans	23,793,857	678,316	23,115,541	24,188,479
Cash loans	29,941,609	1,257,197	28,684,412	25,536,097
Other loans and credit cards	29,198,336	1,879,349	27,318,987	25,358,746
Factoring without recourse	477,503	36	477,467	427,743
Factoring with recourse	133,151	19	133,132	11,364
Other receivables and discount of bills of exchange	64,471	7,176	57,295	133,067
Credit for p/o of imports of goods and services from abroad	7,887,210	22,716	7,864,494	7,703,651
Deposits	2,107	1	2,106	1,772
	176,522,994	**4,938,275**	**171,584,719**	**156,779,527**
Less: Allowance for impairment	(4,938,275)			(6,391,910)
Balance as at December 31	**171,584,719**			**150,387,617**

Changes in allowance for impairment are presented as follows:

	2019	2018
Specific allowances for impairment S-3		
Balance as at 1 January	5,268,765	6,153,484
Correction of the opening balance	-	(828,615)
Balance as at 1 January	5,268,765	5,324,869
Expense	3,663,055	2,963,652
Releases	(3,212,966)	(2,080,412)
Write-off	(1,691,361)	(997,587)
Effect of foreign currency movements	(13,673)	15,012
Unwinding	37,425	43,286
Conversion of CHF-indexed loans	(248,775)	
Other	-	(55)
Total	**3,802,470**	**5,268,765**
Collective allowances for impairment S-1		
Balance as at 1 January	586,428	859,574
Correction of the opening balance	-	(441,637)
Balance as at 1 January	586,428	417,937
Expense	1,436,285	974,760
Releases	(1,335,098)	(767,882)
Effect of foreign currency movements	(1,141)	(38,387)
Conversion of CHF-indexed loans	(5,414)	-
Total	**681,060**	**586,428**

All amounts expressed in thousand of RSD, unless otherwise stated

18. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

Collective allowances for impairment S-2		
Balance as at 1 January	536,717	-
Correction of the opening balance	-	479,784
Balance as at 1 January	536,717	479,784
Expense	1,742,407	1,258,594
Releases	(1,701,819)	(1,232,769)
Write off	(15)	-
Effect of foreign currency movements	(412)	31,108
Conversion CHF loans in EUR	(122,133)	
Total	**454,745**	**536,717**
Balance as at December 31	**4,938,275**	**6,391,910**

In 2019 the Bank granted to corporate and small enterprises customers following loans:

- Short-term loans at annual interest rate depending on the customer credit rating range, up to EURIBOR / BELIBOR plus margin up to 3.65% / 2.5%;
- Long-term loans up to 10 years of maturity, at annual interest rate depending on the customer credit rating range, up to EURIBOR / BELIBOR plus margin up to do 4.45% 2.5%.

For segment of SME customers, in 2019 the Bank granted following loans:

- Loans with monthly instalments, depending on the customer credit rating range, at fixed annual interest rate in the range from 4.4% to 9.00% and with floating interest rate in the range BELIBOR plus margin from 2.25 % to 5%, EUR-linked loans are granted at annual interest rate in the range EURIBOR plus margin from 3.5% to 4.95%;
- For SE sub-segment, long-term loans up to 10 years of maturity, at annual interest rate up to EURIBOR plus margin in the range from 2.6% to 4.5%, These loans are granted mainly from internal funds of the Bank;
- For Micro sub-segment, loans with monthly instalments, depending on the customer credit rating range, at fixed annual interest rate in the range from 7.5% to 12% and with prevailing floating interest rate BELIBOR plus margin from 2.25% to 7%. For EUR-linked loans, loans are granted at fixed annual interest rate in the range from 3.95% to 6.95% and with prevailing floating interest rate EURIBOR plus margin from 3.5% to 6.5%. Long-term loans up to 10 years of maturity at annual interest rate for EUR-linked loans up to 6-month EURIBOR plus margin from 4% to 6% and at fixed annual interest rate from 3.95% to 6.95%. Dinar loans are granted at fixed annual interest rate in range from 8% to 10% or floating interest rate in the range 3-m BELIBOR plus margin 2.25% to 3.25%.

All amounts expressed in thousand of RSD, unless otherwise stated

18. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

In 2019, the Bank granted to private individuals following loans:

- Short term loans with foreign currency clause at floating interest rate calculated as EURIBOR plus margin of 6.75% p.a, and BELIBOR plus margin in the range from 4.80% to 7.6% p.a, for loans in dinars;
- Short term loans with foreign currency clause and fixed interest rate of 9.90% p,a, and in the range from 7.75% to 30.00% for loans in dinars;
- Overdrafts at interest rates in the range from 0% to 29.76% on annual level;
- Long-term loans with foreign currency clause at floating interest rate calculated as EURIBOR plus margin of 5.75% p.a and BELIBOR plus margin of 7.60% p,a for loans in dinars;
- Long term loans (housing) with maximum maturity of 30 years with floating annual interest rate calculated as EURIBOR plus margin of 2,99% for loans with foreign currency clause and BELIBOR plus margin over 1,40% for loans in dinars;
- Long term loans with foreign currency clause and fixed interest rates of 9.90% and from 7.75% to 30.00% for loans in dinars;
- Long-term loans (housing) with maximum maturity of 30 years with fixed annual interest rate of 3.45% - 3.95% for loans with a currency clause.

19. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries comprise of equity investments in following entities:

	2019	2018
Equity investments:		
Raiffeisen Future a,d, Beograd, Asset Management Company for managing of voluntary pension fund	199,908	165,473
Raiffeisen Invest a,d, Beograd, Asset Management Company for managing of investment funds	564,445	413,681
Raiffeisen Leasing d,o,o, Beograd	529,168	449,139
Humanitarian Fund „Budimir Kostić“	30	30
Balance as at December 31	**1,293,551**	**1,028,323**

Changes in allowance for impairment are presented as follows:

	2019	2018
Specific allowances for impairment S-3		
Balance as at 1 January	-	227,915
Correction of the opening balance	-	(227,915)
Balance as at 1 January	-	-
Balance as at December 31	**-**	**-**

All amounts expressed in thousand of RSD, unless otherwise stated

20. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include:

	2019	2018
Land and buildings	3,337,281	3,392,218
Equipment	1,072,904	975,886
Investments in the leased assets	428,020	422,031
	4,838,205	
Leased assets	1,334,418	-
Balance as at December 31	6,172,623	4,790,135

Movements in property and equipment were as follows:

	Land and buildings	Fixtures and fittings	Tangible assets under construction	Total
Cost				
Balance as at 1 January 2018	3,863,845	5,197,395	-	9,061,240
Acquisitions	-	-	525,650	525,650
Transfer	28,141	497,509	(525,650)	-
Disposals	-	(605,769)	-	(605,769)
Balance as at 31 December 2018	3,891,986	5,089,135	-	8,981,121
Balance as at 1 January 2019	3,891,986	5,089,135	-	8,981,121
Acquisitions	-	-	539,387	539,387
Transfers	27,244	512,143	(539,387)	-
Disposals	-	(228,120)	-	(228,120)
Balance as at 31 December 2019	3,919,230	5,373,158	-	9,292,388
Accumulated depreciation and impairment losses				
Balance as at 1 January 2018	418,729	3,948,198	-	4,366,927
Depreciation	81,039	344,024	-	425,063
Disposals	-	(601,004)	-	(604,004)
Balance as at 31 December 2018	499,768	3,691,218	-	4,190,986
Balance as at 1 January 2019	499,768	3,691,218	-	4,190,986
Depreciation	82,181	404,076	-	486,257
Disposals	-	(223,060)	-	(223,060)
Balance as at 31 December 2019	581,949	3,872,234	-	4,454,183
Carrying amount				
Balance as at 1 January 2018	3,445,116	1,249,197	-	4,694,313
Balance as at 31 December 2018	3,392,218	1,397,917	-	4,790,135
Balance as at 31 December 2019	3,337,281	1,500,924	-	4,838,205

There are no restrictions on title of assets neither property nor equipment pledged as a collateral.

All amounts expressed in thousand of RSD, unless otherwise stated

20. PROPERTY, PLANT AND EQUIPMENT (continued)

Movement on leased assets were as follow:

	Car	Business premises	Total
Acquisitions cost			
Balance as at 1 January 2019.	-	-	-
Acquisitions	52,925	1,752,353	1,805,278
Termination of the contract	(4,767)	(117,938)	(122,705)
Balance as at 31 December 2019	**48,158**	**1,634,415**	**1,682,573**
Accumulated depreciation and impairment losses			
Balance as at 1 January 2019.	-	-	-
Depreciation	14,024	363,707	377,731
Termination of the contract	(1,082)	(9,299)	(10,381)
Modification of lease agreement	-	(19,195)	(19,195)
Balance as at 31. December 2019	**12,942**	**335,213**	**348,155**
Carrying amount			
Balance as at 31. December 2019	**35,216**	**1,299,202**	**1,334,418**

21. INTANGIBLE ASSETS

Intangible assets consist of:

	2019	2018
Software and purchased licences	731,144	647,494
Balance as at December 31	**731,144**	**647,494**

All amounts expressed in thousand of RSD, unless otherwise stated

21. INTANGIBLE ASSETS (continued)

Movements in intangible assets are presented as follows:

	Software and purchased licences	Other intangible assets	Total
Cost			
Balance as at 1 January 2018	3,216,750	27,257	3,244,007
Acquisitions	252,839	-	252,839
Balance as at 31 December 2018	**3,469,589**	**27,257**	**3,496,846**
Balance as at 1 January 2019	3,469,589	27,257	3,496,846
Acquisitions	331,604	-	331,604
Balance as at 31 December 2019	**3,801,193**	**27,257**	**3,828,450**
Amortisation and impairment losses			
Balance as at 1 January 2018	2,611,620	27,257	2,638,877
Amortisation for the period	210,475	-	210,475
Balance as at 31 December 2018	**2,822,095**	**27,257**	**2,849,352**
Balance as at 1 January 2019	2,822,095	27,257	2,849,352
Amortisation for the period	247,954	-	247,954
Balance as at 31 December 2019	**3,070,049**	**27,257**	**3,097,306**
Carrying amount			
Balance as at 1 January 2018	**605,130**	**-**	**605,130**
Balance as at 31 December 2018	**647,494**	**-**	**647,494**
Balance as at 31 December 2019	**731,144**	**-**	**731,144**

22. DEFERRED TAX ASSETS

Calculation of deferred tax assets as at 31 December 2019 is presented as follows:

	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference of the carrying amount of fixed assets	196,845	-	196,854	191,456	-	191,456
Provision for legal cases	68,873	-	68,873	81,000	-	81,000
The severance for retirement	50,685	-	50,685	48,098	-	48,098
Other	1,260	-	1,260	(2,741)	-	(2,741)
Valuation - cash flow hedge and securities at fair value through OCI	-	(51,404)	(51,404)	-	(11,027)	(11,027)
Deferred tax asset / liability	**317,672**	**(51,404)**	**266,268**	**317,813**	**(11,027)**	**306,786**

Deferred tax assets are calculated at tax rate of 15% for both presented periods,

All amounts expressed in thousand of RSD, unless otherwise stated

23. OTHER ASSETS

Other assets include:

	2019	2018
Receivables for fees for payment transactions and for others non-credit activities	69,860	63,959
Receivables from sales	4,482	1,622
Advance payments for working capital	3,781	20,174
Advance payments for tangible assets	262	262
Receivables from employees	4,514	13,686
Receivables for paid contributions to employees – sick leave	20,056	35,309
Other receivables from business transactions	100,951	95,619
Suspense and temporary accounts	145,494	39,938
Other receivables	9,869	15,546
Deferred interest expenses	12	30
Deferred other expenses	148,916	111,159
Other prepayments	262,729	256,602
Assets acquired through collection of receivables	20,892	319,363
Inventory	2,071	2,017
	793,835	**975,285**
Less: Allowance for impairment	(82,516)	(75,237)
Balance as at December 31	**711,319**	**900,049**

Changes in allowance for impairment are presented as follows:

	2019	2018
Specific allowances for impairment S-3		
Balance as at 1 January	**51,340**	**54,001**
Correction of the opening balance	-	2,153
Balance as at 1 January	**51,340**	**56,154**
Expense	34,678	14,125
Releases	(15,842)	(16,805)
Write-off	(1,653)	(1,508)
Effect of foreign currency movements	(57)	(626)
	68,466	**51,340**
Collective allowances for impairment S-1		
Balance as at 1 January	**2,075**	**7,717**
Correction of the opening balance	-	(5,403)
Balance as at 1 January	**2,075**	**2,314**
Expense	243	236
Releases	(250)	(487)
Effect of foreign currency movements	76	12
	2,144	**2,075**
Collective allowances for impairment S-2		
Balance as at 1 January	**21,822**	**-**
Correction of the opening balance		24,843
Balance as at 1 January	**21,822**	**24,843**
Expense	18,706	14,024
Releases	(28,611)	(17,336)
Effect of foreign currency movements	(11)	291
	11,906	**21,822**
Balance as at December 31	**82,516**	**75,237**

23. OTHER ASSETS (continued)

Assets acquired through collection of receivables consist of:

	2019		2018	
	Surface (m^2)	Value	Surface (m^2)	Value
Smederevska Palanka, st. Neznanog junaka no. 47 -business and residential property	274.52	5,890	274.52	5,890
Belgrade, st. Ustanicka no. 14a - business property	-	-	1,785.00	189,962
Novi Sad, Jovana Dučića 35, object of physical education, tennis courts,	613.00	15,002	3,575.00	123,511
Balance as at December 31	887.52	20,892	5,634.52	319,363

Changes in allowance for impairment are presented as follows:

	2019.	2018.
Allowances for impairment		
Balance as at 1 of January	-	-
Expense	76	-
Balance as at 31 of December	76	-

24. DEPOSITS AND OTHER FINANCIAL LIABILITIES FROM BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other financial liabilities from banks, other financial institutions and central bank include:

	2019			2018		
	In dinars	In foreign currency	Total	In dinars	In foreign currency	Total
Sight deposits	1,306,764	401,275	1,708,039	1,508,400	602,740	2,111,140
Special purpose deposits	10,000	131,580	141,580	27,455	8,727	36,182
Other deposits	3,978	13,612	17,590	3,411	9,976	13,387
Borrowings	-	1,895,921	1,895,921	-	862,207	862,207
Other financial liabilities	-	518,258	518,258	12	15,230	15,242
	166	5,978	6,144			
Balance as at December 31	**1,320,908**	**2,966,624**	**4,287,532**	**1,539,278**	**1,498,880**	**3,038,158**

Borrowings include:

	2019		2018	
	In 000 EUR	In 000 RSD	In 000 EUR	In 000 RSD
The European Fund for Southeast Europe - EFSE	4,410	518,584	7,350	862,207
Balance as at December 31	**4,410**	**518,584**	**7,350**	**862,207**

Maturity of long term borrowings is up to 8 years. Borrowings are repaid in equal half annual instalments. Interest rates are calculated at the and 6-month EURIBOR plus a margin of 3.05% p.a.

All amounts expressed in thousand of RSD, unless otherwise stated

25. DEPOSITS AND OTHER FINANCIAL LIABILITIES FROM OTHER CUSTOMERS

Deposits and other financial liabilities from other customers include:

	2019			2018		
	In dinars	In foreign currency	Total	In dinars	In foreign currency	Total
Sight deposits	72,341,070	137,137,230	209,478,300	55,023,528	130,881,118	185,904,646
Savings deposits	277,220	27,482,442	27,759,662	265,414	26,933,987	27,199,401
Deposits as collateral for loans granted	69,845	794,603	864,448	35,334	768,682	804,016
Special purpose deposits	506,754	4,883,118	5,389,872	478,146	3,325,717	3,803,863
Other deposits	326,878	363,216	690,094	811,872	553,490	1,365,362
Overnight deposits	5,946	700,716	706,662	12,990	559,308	572,298
Borrowings	-	6,303,349	6,303,349	-	7,571,003	7,571,003
Other financial liabilities	21,469	599,922	621,391	11,966	657,136	669,102
Balance as at December 31	73,549,182	178,264,596	251,813,778	56,639,250	171,250,441	227,889,691

Borrowings in the amount of RSD 6,303,349 thousands (2018: RSD 7,571,003thousands) refer to loans granted by Ministry of Finance of Republic of Serbia:

- APEX loans with maturity up to 12 years, Borrowings are repaid in equal half annual and quarterly instalments. Interest rates are calculated at the 3-month and 6-month EURIBOR plus a margin in the range from 0.27% to 1.38% p.a.;
- Revolving loan fund with maturity up to 5 years, Borrowings are repaid in equal quarterly instalments. Interest rates are calculated at the 3-month LIBOR plus a margin of 0.75% p.a. Interest liabilities are repaid in quarterly instalments.

The Bank generally did not pay interest in 2019 to large and medium-sized enterprises, but optionally offered the services of Raiffeisen Invest Cash Fund, where average yields on dinar deposits were app. 2.97%, and for foreign currency deposits in EUR yields ranged from 0.59%.

All amounts expressed in thousand of RSD, unless otherwise stated

25. DEPOSITS AND OTHER FINANCIAL LIABILITIES FROM OTHER CUSTOMERS (continued)

In 2019, the Bank did not offer time deposits to small enterprises and entrepreneurs,

The Bank did not calculate and pay interest on the foreign currency household accounts. Also, the Bank did not calculate and pay interest dinar current and saving household accounts.

Dinar short term deposits of households with maturity of 12 months have an annual interest rate of 1.00%, while all other models of dinar term deposits were withdrawn from the Banks offer from 2016.

For dinar and foreign currency deposits placed on term accounts opened before 2016, with the possibility of more successive payments and automatic re-payment, the interest was calculated at a rate of 0.11% when it was a deposit in the EUR currency, or 0.01% in the case of deposits in other currencies, regardless of the term of deposit.

	Note	2019	2018
Opening balance			
Deposits and other liabilities from banks, other financial institutions and central bank	24	3,038,158	3,152,382
Deposits and other liabilities from other customers	25	227,889,691	200,906,463
Opening balance 1 January		**230,927,849**	**204,058,845**
Net inflow – deposits		26,906,210	27,570,848
Net outflow – borrowings		(1,586,705)	(1,238,794)
Net outflow - interest		(184,538)	(176,253)
Net outflow – fees		(1,778,755)	(1,575,282)
Foreign exchange differences		(90,030)	556,014
Accrued interest and other non-cash transactions		1,952,601	1,732,471
Closing balance			
Deposits and other liabilities from banks, other financial institutions and central bank	24	4,287,532	3,038,158
Deposits and other liabilities from other customers	25	251,813,778	227,889,691
Closing balance 31 December		**256,101,310**	**230,927,849**

All amounts expressed in thousand of RSD, unless otherwise stated

26. PROVISIONS

26.1 Provisions consist of:

	2019	2018
Provision for employee benefits		
- provisions for retirement benefit	260,271	241,503
- provisions for other long term payments	77,628	79,151
- other short term provisions (bonus, vacations)	222,810	175,301
	560,709	495,955
Provision for contingent liabilities	658,872	486,441
Provision for pending legal cases	443,595	526,641
Other provisions	81,613	13,362
Balance as at December 31	**1,744,789**	**1,522,399**

26.2 Movements in provisions for employee benefits are presented as follows:

	2019	2018
Balance as at 1 January	495,955	535,294
Provision for the year	261,887	223,454
Release during the year	(193,790)	(245,725)
Payments	(3,343)	(17,068)
Balance as at December 31	**560,709**	**495,955**

26.3 Movements in provision for contingent liabilities are presented as follows:

	2019	2018
Balance as at 1 January	**486,441**	**335,704**
Correction on the opening balance		196,473
Balance as at 1 January	**486,441**	**532,177**
Provision for the year	952,401	654,245
Release during the year	(778,424)	(699,694)
Foreign exchange differences	(1,546)	(287)
Balance as at December 31	**658,872**	**486,441**

Provision for contingent liabilities in the amount of RSD 658,872 thousand (31 of December 2018: RSD 486,441 thousand) is made for guarantees and other off-balance sheet placements in accordance with Methodology on calculation of impairment provision of financial assets and off-balance sheet items.

All amounts expressed in thousand of RSD, unless otherwise stated

26. PROVISIONS (continued)

26.4 Movements in provision for pending legal cases are presented in the table below:

	2019	2018
Balance as at 1 January	526,641	442,853
Provision for the year	222,250	88,783
Other	(150)	(1,267)
Usage	(305,146)	(3,728)
Balance as at December 31	**443,595**	**526,641**

26.5 Movements in other provisions are presented as follows:

	2019	2018
Balance as at 1 January	13,361	15,256
Provision for the year	68,838	-
Foreign exchange differences	(586)	(1,895)
Balance as at December 31	**81,613**	**13,361**

27. OTHER LIABILITIES

Other liabilities consist of:

	2019	2018
Fee liabilities	12,557	13,004
Suppliers	318,509	216,415
Advances received	216,920	77,548
Lease liabilities	1,347,281	-
Other liabilities from business activities	47,089	31,318
Liabilities in settlement	22,265	17,823
Suspense and temporary accounts	476,871	443,644
Liabilities for to wages and salaries	10,497	1
Liabilities for VAT	48,707	42,753
Liabilities for other taxes and contributions	3,766	2,952
Other accrued expenses	122,730	154,689
Accrued interest income	119,518	116,300
Other accrued income	164,782	302,558
Other accruals	892	1,277
Balance as at December 31	**2,912,384**	**1,420,282**

All amounts expressed in thousand of RSD, unless otherwise stated

28. EQUITY

28.1 Equity includes:

	2019	2018
Share capital	27,466,158	27,466,158
Profit reserves	23,353,465	23,353,465
Revaluation reserves from the change in the value of equity instruments – investment in subsidiaries	567,070	301,843
Hedging reserves	(69,082)	(26,833)
Revaluation reserves from the change in the value of debt instruments - bonds	360,370	86,757
Profit for the year	6,213,212	6,727,538
Balance as at December 31	**57,891,193**	**57,908,928**

Raiffeisen SEE Region Holding GmbH, Vienna holds 100% of the Bank's equity. Raiffeisen Bank International AG is ultimate parent of the Bank.

The shareholders of the Bank's ordinary shares are liable for the liabilities of the Bank and bear the risk of business activities of the Bank in proportion to number of shares which possess. Shares may be transferred on third parties in accordance with provisions of the Decision on founding. The shareholder of the Bank's ordinary shares has the right on dividend pay-out.

In 2019, based on the Shareholder's Assemble Decision dated 25 April 2019, retained earnings related to 2018 profit, are distributed through dividend pay-out in the amount of RSD 6,628,209 thousand.

In 2018, based on the Shareholder's Assemble Decision dated 26 April 2018, retained earnings related to 2017 profit, are distributed through dividend pay-out in the amount of RSD 6,626,785 thousand.

28.2 Profit reserves include:

	2019	2018
Specific reserve from credit losses on balance-sheet assets and off-balance sheet items	23,353,465	23,353,465
Balance as at December 31	**23,353,465**	**23,353,465**

28.3 The Bank has complied with all externally imposed capital requirements to which it is subject (Note 4 (f).

All amounts expressed in thousand of RSD, unless otherwise stated

29. CONTINGENT LIABILITIES

29.1 Contingent liabilities as at 31 December comprise the following:

	2019	2018
Payment and performance guarantees	52,871,741	46,090,594
Letters of credit	1,209,328	1,287,453
Irrevocable credit lines	18,370,318	15,718,206
Revocable credit lines	83,290,409	65,161,764
Balance as at December 31	**155,741,796**	**128,258,017**

In respect of contingent liabilities, the Bank estimated and booked provision in the amount of RSD 658,872 thousand (2018: RSD 486,441 thousand).

Irrevocable credit lines comprise the following:

	2019	2018
Overdrafts to non-retail	19,982	15,337
Commitments related to short-term loans and guarantees	37,782	24,775
Commitments related to long-term loans and guarantees	6,554,894	4,808,079
Credit cards to non-retail	843,266	683,311
Overdraft to individuals	1,151030	1,093,097
Credit cards to individuals retail	9,763,364	9,093,607
Balance as at December 31	**18,370,318**	**15,718,206**

29.2 Legal proceedings

As of December 31, 2019 there were 2,222 litigations filed against the Bank (2018: 833), with the total value claimed in the amount of RSD 2,034,119 thousand (2018: RSD 1,733,728 thousand). For these court cases, the Bank created provisions in the amount of RSD 443,595 thousand (2018: RSD 526,641 thousand), based on the management's estimate of the probable positive outcome of the proceedings and the total losses that the Bank may suffer.

The Bank has filed a number of lawsuits against third parties, mostly for the purpose of collecting its receivables.

All amounts expressed in thousand of RSD, unless otherwise stated

30. RELATED PARTIES

The Bank is controlled by the Raiffeisen SEE Region Holding GmbH, Vienna incorporated in Austria, which owns 100% of its ordinary shares. The ultimate parent of the Bank is the Raiffeisen Zentralbank Osterreich AG incorporated in Austria. In addition, the Bank has control over its subsidiaries Raiffeisen Future a.d. Beograd, Raiffeisen Invest a.d. Beograd and Raiffeisen Leasing d.o.o. Beograd.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, equity investments and derivative instruments.

Outstanding balances of assets and liabilities as of December 31, 2019 and 2018, resulting from the Bank's related party transactions are summarized below:

	2019	2018
ASSETS		
Financial assets at fair value through profit or loss held for trading		
Raiffeisen Bank International AG, Wien	11,901	5,787
	11,901	5,787
Financial assets available for sale		
Raiffeisen bank, A.S. Prague	-	1,189,464
	-	1,189,464
Loans and advances to banks and other financial institutions		
Raiffeisen Bank International AG, Wien	206,944	223,770
Raiffeisen bank d,d,, Bosna i Hercegovina	23	-
Raiffeisenbank Austria d.d., Zagreb	23,230	23,560
Raiffeisen Leasing d.o.o., Beograd	5,509,054	5,290,205
	5,739,251	5,537,535
Loans and advances to customers		
Park City Real Estate d.o.o., Novi Sad	-	54,584
Building Business Center d.o.o., Novi Sad	-	41,863
Bulevard Centar BBC d.o.o. Novi Sad	-	4,068
Raiffeisen Rent d.o.o., Beograd	1,207,220	1,184,959
	1,207,220	1,184,959
Receivables from financial derivatives held for hedging against risks		
Raiffeisen Bank International AG, Wien	152,072	68,904
	152,072	68,904
Property, plant and equipment – right-of-use		
Raiffeisen Rent d.o.o., Beograd	35,217	-
	35,217	-
Other assets		
Raiffeisen Bank International AG, Wien	27,844	26,795
Raiffeisen Leasing D.O.O.	1,880	1,621
Raiffeisen bank d,d,, Bosna i Hercegovina	108	106
Raiffeisenbank Austria d,d,, Zagreb	616	1,939
Raiffeisen Invest a.d. Beograd	3	9,311
Raiffeisen Future a.d. Beograd	12,115	4,187
Raiffeisen Rent d.o.o., Beograd	2,055	418
	45,003	44,377

All amounts expressed in thousand of RSD, unless otherwise stated

30. RELATED PARTIES (continued)

	2019	2018
LIABILITIES		
Financial liabilities at fair value through profit or loss held for trading		
Raiffeisen Bank International AG, Wien	18,516	6,086
	18,516	**6,086**
Liabilities arising from financial derivatives held for hedging against risks		
Raiffeisen Bank International AG, Wien	234,945	71,709
	234,945	**71,709**
Deposits and other liabilities from banks, other financial institutions and central bank		
Raiffeisen Bank International AG, Wien	24,915	5,065
Raiffeisen Bank d,d,, Bosna i Hercegovina	2,176	7,864
Raiffeisenbank Austria d,d,, Zagreb	11,031	995
Raiffeisen Invest a.d. Beograd	-	1,810
Raiffeisen Future a.d. Beograd	3,427	1,492
Raiffeisen Leasing d.o.o., Beograd	236,501	593,698
	278,050	**610,924**
Deposits and other liabilities from other customers		
Raiffeisen Rent d.o.o., Beograd	12,790	14,070
Park City Real Estate d.o.o., Novi Sad	-	183,969
Building Business Center d.o.o., Novi Sad	-	333,429
Bulevard Centar BBC d.o.o., Novi Sad	-	241
	12,790	**531,709**
Provisions		
Raiffeisen Bank International AG, Wien	11	23
Raiffeisen Leasing d.o.o., Beograd	293	8,711
Raiffeisen Rent d.o.o., Beograd	183	149
Raiffeisenbank Austria d,d,, Zagreb	1	4
Raiffeisen bank Kosovo	1	1
Raiffeisen bank A.S Prague	-	1
Raiffeisen bank DD Bosna i Hercegovina	-	1
Raiffeisenlandesbank Niederoesterreich-Wien AG	1	-
	480	**8,890**
Other liabilities		
Raiffeisen Bank International AG, Wien	68,751	71,383
Raiffeisen Leasing d.o.o., Beograd	17	322
Raiffeisen Rent d.o.o., Beograd	17	138
Centralised Raiffeisen International Services & Payments S.R.L., Bucharest	1,587	1,552
Raiffeisen Bank d,d,, Bosna i Hercegovina	-	18
PJSC Ukrainian processing center, Ukraina	1,945	633
Raiffeisenbank Austria d,d,, Zagreb	27	732
Raiffeisen Bank Kosovo	22	66
Raiffeisen bank, A,S, Prague	-	30
AO Raiffeisen bank Moscow	56	-
Raiffeisenlandesbank Niederoesterreich-Wien AG	19	
Regional Card Processing Centre s.r.o., Bratislava	33,258	16,793
	105,699	**91,667**

All amounts expressed in thousand of RSD, unless otherwise stated

30. RELATED PARTIES (continued)

The following table summarizes total income and expenses arising from related party transactions realized during the years ended December 31, 2019 and 2018:

	2019	2018
Interest income:		
Raiffeisen Bank International AG, Wien	245	131
Raiffeisen Leasing d.o.o., Beograd	33,094	36,487
Raiffeisen Rent d.o.o., Beograd	12,442	8,751
Raiffeisen Bank AS Prague	7,485	8,870
	53,266	**54,239**
Interest expenses:		
Raiffeisen Bank International AG, Wien	(30,489)	(31.497)
Raiffeisen Bank AS Prague	(3,658)	(4.421)
	(34,147)	**(35.918)**
Fee and commission income:		
Raiffeisen Rent d.o.o., Beograd	724	935
Bulevard Centar BBC DOO Novi Sad	-	5
Park City Real Estate DOO, Novi Sad	-	48
Building Business Centar DOO, Novi Sad	-	68
Raiffeisen Bank International AG, Wien	39,006	39,074
Raiffeisenbank Austria d,d,, Zagreb	1,520	1,567
Tatra Banka SA Prague	66	28
Raiffeisen Leasing d.o.o. Beograd	1,700	1,663
Raiffeisen Banka dd Bosna i Hercegovina	477	680
Raiffeisenbank Kosovo	303	182
AO Raiffeisen bank Moscow	176	-
Raiffeisen bank ZRT	26	-
Raiffeisen bank Bulgaria	1	-
Raiffeisenlandesbank Niederoesterreich-Wien AG	874	-
Raiffeisen Invest a.d. Beograd	250	89,417
Raiffeisen Future a.d. Beograd	223	13,033
Raiffeisen Bank AS Prague	215	222
	45,561	**146,922**
Fee and commission expenses:		
PJSC Ukrainian processing center, Ukraine	(6,072)	(3,382)
Raiffeisenbank Austria d,d,, Zagreb	(81)	(91)
Regional Card Processing Centre	(241,854)	(160,370)
Raiffeisen Bank International AG, Wien	(148,554)	(129,883)
Raiffeisen Banka dd Bosna i Hercegovina	(-)	(2)
Raiffeisen Invest a.d. Beograd	(2)	(2)
Raiffeisen Rent d.o.o., Beograd	(-)	(2)
	(396,563)	**(293,732)**

All amounts expressed in thousand of RSD, unless otherwise stated

30. RELATED PARTIES (continued)

	2019	2018
Net gains/(loss) on financial assets held for trading		
Raiffeisenbank Austria d,d,, Zagreb	-	(968)
Raiffeisen Bank International AG, Wien	(6,315)	(13,471)
	(6,315)	**(14,439)**
Net losses on hedging		
Raiffeisen Bank International AG, Wien	(33,926)	82,086
	(33,926)	**82,086**
Other operating income		
Raiffeisen Rent d.o.o. Beograd	4,110	3,349
Raiffeisen Leasing d.o.o. Beograd	19,600	17,733
Raiffeisen Bank International AG, Wien	961	288
Raiffeisen Invest a.d. Beograd	4,618	3,659
Raiffeisen Future a.d. Beograd	5,485	4,470
Raiffeisenbank Bulgaria	721	848
Raiffeisenbank Austria d,d,, Zagreb	1,603	1,895
	37,098	**32,242**
Net impairment gain/(loss) on financial assets		
Bulevard Centar BBC d.o.o., Novi Sad	-	475
Building Business Centar d.o.o., Novi Sad	-	(28,972)
Raiffeisen Banka dd Bosnna i Hercegovina	1	(1)
Raiffeisenbank Austria d.d., Zagreb	4	(4)
Raiffeisen Rent d.o.o. Beograd	1,483	(832)
Raiffeisen bank ZRT	(6)	
Raiffeisenlandesbank Niederoesterreich-Wien AG	6	
Raiffeisen Bank SA Prague	130	(84)
Raiffeisen Leasing d.o.o. Beograd	21,587	(7,143)
Raiffeisen Bank International AG, Wien	16	(17)
Park City Real Estate d.o.o., Novi Sad	-	28,636
	23,221	**(7,942)**
Other income		
Centralised Raiffeisen International Services & Payments S.R.L., Bucharest	3,836	3,116
Raiffeisen Bank International AG, Wien	948	46
Raiffeisen Rent d.o.o., Beograd	34	-
Regional Card Processing Centre	64	-
	4,882	**3,162**
Other expenses		
Raiffeisen Rent d.o.o., Beograd	(3,653)	(15,964)
Raiffeisen Bank International AG, Wien	(343,132)	(338,740)
Centralised Raiffeisen International Services & Payments S.R.L., Bucharest	(40,452)	(39,417)
Raiffeisen Banka dd Bosnna i Hercegovina	-	(2,118)
Raiffeisen Leasing d.o.o. Beograd	-	(84)
Raiffeisenbank Austria d.d., Zagreb	(7)	(7)
	(387,244)	**(396,330)**
Net as at 31 December	**(694,167)**	**(429,710)**

Total gross salaries and other personnel expenses for the Managing board members and other key executives in 2019 amount to RSD 739,570 thousand (2018: RSD 672,109 thousand).

31. SUBSEQUENT EVENTS

Due to pandemic caused by the spread of coronavirus COVID-19 and proclaiming state of emergency in Republic of Serbia, in accordance with the Decision of National Bank of Serbia on temporary measures for maintaining financial system stability (hereinafter: the Decision), the Bank offered to all its customers to use moratorium on loan and other liabilities repayment, which can not be shorter than 90 days or not shorter than duration of state of emergency proclaimed due to pandemic. During state of emergency proclaimed due to pandemic, the Bank will not accrued penalty interest ondue reveivables and will not enforce take-overs on collateras or forced collections from clients, as well the Bak will not undertake other legal actions in order to collect claims form clients.

The management of the Bank assessed potential impact of moratorium and other measrues defined by the Decision on the Bank's liquidity position. Result of the analyses shows that the Bank will be able in the next period to maintain existing level of business activities even without in-flows relating to settlement of obligations from clients. Having in mind high level of unceainetly relating to assessment of impact of the Decision, the Bank not revised its budget projections. Revision of the budget will be done as soon as the impact of the Decision implementation may be assessed based on more precise information.

As the outbreak and spread of the coronavirus continues to evolve it is challenging to predict the full extent and duration of its business and economic implications. However, having in mind that circumstances could be even harder, the Bank estimates the coronavirus could have negative effect on loan portfolio, asset quality, impairments and provisions, fair value measurement financial assets, etc. The extent of the implications on the Banks's financial performance are currently not possible to evaluate with a high degree of certainty.

There were no other subsequent events which need to be disclosed in these separate financial statements for 2019.

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