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TRANSLATION

Independent Auditor's Report

To the Shareholders of Banca Intesa a.d. Beograd

Opinion

We have audited the accompanying separate financial statements of Banca Intesa a.d. Beograd (the "Bank"), which comprise:

- the separate balance sheet as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

- the separate statement of profit or loss;
- the separate statement of comprehensive income;
- the separate statement of changes in equity;
- the separate statement of cash flows;

and

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

(the "separate financial statements").

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2020, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Registration Number:17148656
Tax identity number: 100058593
Bank Acc.:: 265-1100310000190-61

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2020.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements, in our opinion, the information given in the Annual Business Report for the financial year for which the separate financial statements are prepared, in all material respects:

— is consistent with the separate financial statements; and
— has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we are required to report if we identify material misstatements in the Annual Business Report and to give an indication of the nature of any of such misstatements. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

As part of an audit in accordance with the Law on Auditing of the Republic of Serbia, the Decision on External Audit of Banks and applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG d.o.o. Beograd

Signed on the Serbian original

Nikola Đenić
Licenced Certified Auditor

Katarina Kecko
Partner

Belgrade, 5 March 2021

This is a translation of the original Independent Auditor's Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail. We assume no responsibility for the correctness of the translation of the Bank's separate financial statements.

KPMG d.o.o. Beograd

Nikola Đenić
Licenced Certified Auditor

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

Katarina Kecko
Partner

Belgrade, 5 March 2021

SEPARATE BALANCE SHEET as at 31 December 2020

in RSD thousand	Note	December 31, 2020	December 31, 2019
ASSETS			
Cash and assets held with the central bank	15, 2.14	142,071,319	97,392,634
Receivables under derivatives	16, 2.10	49,832	61,978
Securities	16, 2.9	90,307,009	108,307,660
Loans and receivables from banks and other financial organisations	17, 2.8	53,404,401	51,166,557
Loans and receivables from clients	17, 2.8	409,138,881	373,909,572
Investments in associated companies and joint ventures	16, 2.7	1,199,472	1,199,472
Intangible investments	18, 2.15	5,385,746	5,348,965
Property, plant and equipment	19, 2.16	10,129,940	9,953,027
Investment property	2.16	-	776
Current tax assets	14, 2.21	198,681	-
Deferred tax assets	14, 2.21	588,968	683,199
Non-current assets held for sale and discontinued operations	2.16	22,741	38,301
Other assets	20	4,688,664	4,568,751
TOTAL ASSETS		**717,185,654**	**652,630,892**
LIABILITIES			
Liabilities under derivatives	21, 2.10	2,589	7,869
Deposits and other liabilities to banks, other financial organisations and central bank	22, 2.11	66,389,398	66,347,915
Deposits and other financial liabilities to clients	22, 2.11	521,155,412	472,324,895
Provisions	23, 2.3	1,383,450	861,164
Current tax liabilities	14, 2.21	-	478,134
Deferred tax liabilities	14, 2.21	168,745	106,182
Other liabilities	24	19,071,430	12,437,666
TOTAL LIABILITIES		**608,171,024**	**552,563,825**
CAPITAL			
Share capital	25, 2.19	41,748,469	41,748,469
Retain earnings	25, 2.19	21,850,279	12,331,751
Reserves	25, 2.19	45,415,882	45,986,847
TOTAL CAPITAL		**109,014,630**	**100,067,067**
TOTAL CAPITAL SHORTFALL		**717,185,654**	**652,630,892**

Belgrade, 17 February 2021

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

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SEPARATE INCOME STATEMENT in the period from 1 January to 31 December 2020

in RSD thousand	**Note**	**2020.**	**2019.**
Interest income	3, 2.4	22,209,990	22,468,369
Interest expenses	3, 2.4	(1,413,773)	(2,080,181)
Net interest gains		**20,796,217**	**20,388,188**
Income from fees and commissions	4, 2.5	11,825,359	12,194,157
Expenses on fees and commissions	4, 2.5	(4,325,330)	(4,502,305)
Net gains from fees and commissions		**7,500,029**	**7,691,852**
Net gains from change in fair value of financial instruments	5, 2.7	462,237	185,803
Net gains / (losses) from derecognition of the financial instruments measured at fair value	6, 2.7	362,348	(2,495)
Net exchange rate gains and gains from agreed currency clause	7, 2.6	1,312,869	2,197,296
Net expenses on impairment of financial assets not measured at fair value through income statement	8, 2.7	(4,167,578)	(2,302,796)
Net gains / (losses) on derecognition of financial instruments carried at amortized cost	6, 2.7	81,961	(207,369)
Other operating income	9	130,161	119,295
Total net operating income		**26,478,244**	**28,069,774**
Salaries, salary compensations and other personal expenses	10, 2.20	(6,376,881)	(6,213,247)
Depreciation costs	11, 2.16	(2,100,569)	(1,577,139)
Other income	12	365,603	943,685
Other expenses	13	(7,532,880)	(7,284,638)
Profit before tax		**10,833,517**	**13,938,435**
Profit tax	14, 2.21	(1,351,960)	(1,608,976)
Profit after tax		**9,481,557**	**12,329,459**

Belgrade, 17 February 2021

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME in the period from 1 January to 31 December 2020

in RSD thousand	**2020**	**2019**
Profit for the period	**9,481,557**	**12,329,459**
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase/ (decrease) in revaluation reserves based on intangible assets and fixed assets	354,528	(881)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	(1,386)	(1,568)
Components of other comprehensive income that may be reclassified to profit or loss:		
(Negative) / positive effects of change in value of debt instruments measured at fair value through other comprehensive income	(924,107)	1,212,502
Total (negative) / positive comprehensive income for the period	(570,965)	1,210,053
Total positive comprehensive income for the period	**8,910,592**	**13,539,512**

Belgrade, 17 February 2021

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

SEPARATE STATEMENT OF CHANGES IN EQUITY in the period from 1 January to 31 December 2020

in RSD thousand	**Share capital and other equity**	**Premium on issue of shares**	**Reserves from profit and other reserves**	**Revaluation reserves**	**Retain earnings**	**Total**
Opening balance as at 1 January, 2019	**21,315,900**	**20,432,569**	**47,484,121**	**1,287,891**	**16,080,705**	**106,601,186**
Decrease in revaluation reserves based on intangible assets and fixed assets	-	-	-	(881)	-	(881)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(1,568)	-	(1,568)
positive effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	1,212,502	-	1,212,502
Transfer from reserves of profit	-	-	(3,995,218)	-	3,995,218	-
Profit for the current year	-	-	-	-	12,329,459	12,329,459
Dividend payments	-	-	-	-	(20,075,923)	(20,075,923)
Other	-	-	-	-	2,292	2,292
Balance as at 31 December, 2019	**21,315,900**	**20,432,569**	**43,488,903**	**2,497,944**	**12,331,751**	**100,067,067**
Opening balance as at 1 January, 2020	**21,315,900**	**20,432,569**	**43,488,903**	**2,497,944**	**12,331,751**	**100,067,067**
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	-	354,528	-	354,528
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(1,386)		(1,386)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(924,107)	-	(924,107)
Profit for the current year	-	-	-	-	9,481,557	9,481,557
Other	-	-	-	-	36,971	36,971
Balance as at 31 December, 2020	**21,315,900**	**20,432,569**	**43,488,903**	**1,926,979**	**21,850,279**	**109,014,630**

Belgrade, 17 February 2021

Rada Radović
Head of Accounting Department

Dragica Mihajlović
CFO

Draginja Đurić
CEO

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SEPARATE CASH FLOW STATEMENT in the period from 1 January to 31 December 2020

in RSD thousands	2020	2019
Cash inflow from operating activities	**32,238,151**	**37,954,869**
Interest	17,884,407	22,537,049
Fees	12,436,301	12,281,048
Other operating income	1,917,443	3,049,070
Dividends and profit sharing	-	87,702
Cash outflow from operating activities	**(20,899,229)**	**(19,996,129)**
Interest	(1,876,378)	(1,549,626)
Fees	(4,280,405)	(4,576,913)
Gross salaries, salary compensations and other personal expenses	(6,504,778)	(6,421,179)
Taxes, contributions and other duties charged to expenses	(76,221)	(146,041)
Other operating expenses	(8,161,447)	(7,302,370)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**11,338,922**	**17,958,740**
Inflow from financial assets and increase in financial liabilities	**71,346,549**	**84,199,424**
Inflow from receivables under securities and other financial assets not intended for investment	18,089,375	-
Inflow from deposits and other financial liabilities to banks, other financial organisations, central bank and clients	53,257,174	84,199,424
Outflow from financial assets and decrease in financial liabilities	**(22,989,867)**	**(79,227,477)**
Outflow from loans and receivables from banks, other financial organisations, central bank and clients	(22,872,947)	(66,440,200)
Outflow from receivables under securities and other financial assets not intended for investment	-	(12,765,780)
Outflow from other financial liabilities	(116,920)	(21,497)
Net cash inflow from operating activities before profit tax	**59,695,604**	**22,930,687**
Profit tax paid	(1,935,978)	(1,130,627)
Dividends paid	-	(20,075,923)
Net cash inflow from operating activities	**57,759,626**	**1,724,137**
Cash inflow from investing activities	**67,306**	**37,416**
Investment in investment securities	-	-
Sale of intangible investments, property, plant and equipment	59,702	37,416
Sale of investment property	7,604	-
Cash outflow from investing activities	**(1,412,084)**	**(2,233,455)**
Purchase of intangible investments, property, plant and equipment	(1,412,084)	(2,233,455)
Net cash inflow from investing activities	**(1,344,778)**	**(2,196,039)**

Cash inflow from financing activities	**51,210,855**	**39,884,114**
Loans taken	51,210,855	39,884,114
Cash outflow from financing activities	**(47,013,059)**	**(41,860,634)**
Loans taken	(46,539,103)	(41,386,959)
Other outflow from financing activities	(473,956)	(473,675)
Net cash outflow / inflow from financing activities	**4,197,796**	**(1,976,520)**
TOTAL CASH INFLOW	**154,862,861**	**162,075,823**
TOTAL CASH OUTFLOW	**(94,250,217)**	**(164,524,245)**
TOTAL CASH INFLOW / OUTFLOW	60,612,644	(2,448,422)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**57,291,035**	**59,790,479**
EXCHANGE RATE GAINS	7,099,732	426,252
EXCHANGE RATE LOSSES	(7,119,607)	(477,274)
CASH AND CASH EQUIVALENTS AT END-PERIOD (Note15)	**117,883,804**	**57,291,035**

Belgrade, 17 February 2021

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

BANCA INTESA

NOTES
TO THE SEPARATE FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

CONTENT

1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Belgrade (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD Belgrade dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permission for the foundation of Delta banka DD Belgrade.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Companies Register no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Belgrade.

During the year ended 31 December 2007, the legal status change was carried out through a merger by absorption, whereby the acquirer was Banca Intesa a.d. Belgrade, and the acquired bank was Panonska banka a.d. Novi Sad. Upon registration of the procedure of merger by absorption with the Serbian Business Registers Agency, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

During 2012, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Companies. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 85268/2012 dated 27 June 2012.

During 2015, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Banks. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 56475/2015 dated 26 June 2015.

Furthermore, in August 2015, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder International Finance Corporation (IFC) sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank had two shareholders, Intesa Sanpaolo Holding International S.A. and Intesa Sanpaolo S.p.A. Based on the previous change in the shareholding structure and upon the previous approval of the National Bank of Serbia, Bank's Assembly has adopted changes and amendments to the Memorandum of Association, which was registered with the Decision of the Serbian Business Registers Agency no. BD 2238/2016 dated 18 January 2016.

In December 2016, the shareholding structure of the Bank was changed once more and it reflects in the fact that the minority shareholder Intesa Sanpaolo S.p.A. sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank has one shareholder and it is Intesa Sanpaolo Holding International S.A.

Based on the previous change of the shareholders structure of the Bank and upon receipt of the consent of the National Bank of Serbia, the Shareholders' Assembly has adopted changes and amendments of the Memorandum on Association. The change was registered at the Business Registers Agency under the decision no. BD 37271/2017 dated 5 May 2017.

The Bank is authorized by National Bank of Serbia and registered to perform the following operations: payment transactions, credit and deposit operations, issuance of payment cards; also, the Bank is registered for operations with securities, issuance of guarantees and other warranties. In accordance with articles of Law on banks, the Bank operates in accordance with principles of liquidity, security and profitability. In addition, the Bank is authorized for selling of investment units as well for representing insurance, with prior consent of National bank of Serbia.

As of 31 December 2020, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 4 regional centres and 155 branches.

The Bank had 3,061 employees as of 31 December 2020 (31 December 2019: 3,073 employees).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for the preparation and presentation of the separate financial statements

The separate financial statements of the Bank for the year ended 31 December 2020 (hereinafter: the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs).

In accordance with the Law on Accounting, banks must keep their books of accounts and prepare financial statements in accordance with translated IFRSs, while, by the Law on Banks (article 50.2), it has been designated that, when compiling Annual Financial Statements, a bank should apply the IFRSs as of date which the competed authority has designed as the date of the application of these standards.

(a) New standards, amendments and interpretations to existing standards mandatory for the first time for the financial year beginning on 1 January 2020

The application of the following and amended standards and IFRIC interpretations to existing standards mandatory for the first time for the financial year beginning on 1 January 2020, did not result in substantial changes to the Bank's accounting policies and did not have an materially significant impact on the Bank's accompanying separate financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards, effective from 1 January 2020 – amendments intend to provide more comprehensive conceptual framework, with the aim to provide to the International Accounting Standards Board complete set of tools for standards setting. It covers all aspects of standards setting, from the aim of financial reporting, through presentation and disclosure.

- Definition of a Business (Amendments to IFRS 3) effective from 1 January 2020 - The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

- Definition of Material (Amendments to IAS 1 and IAS 8) effective from 1 January 2020 – amendments relate to change in definition of materiality concept, practical guidelines in its application, with additional focus to application of materiality in accounting policies disclosures.

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) - effective from 1 January 2020 – amendments of relevant standards address uncertainties related to the market-wide reform of interbank offered rates (IBOR) and mainly relate to financial instruments that are qualified for hedge accounting. Since the Bank does not apply hedge accounting so far, these amendments are not applicable for the Bank's operations.

- Extension of the Temporary Exemption from Applying IFRS9 (Amendments to IFRS 4) – effective from 1 January 2020. The amendments change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023 (instead of 1 January 2021).

(b) New standards, amendments and interpretations to existing standards that are not yet effective

At the time of the approval of the accompanying financial statements, the following new standards and interpretations that are applicable in the following reporting periods have been issued:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16) effective for reporting periods starting from 1 June 2020 with earlier application permitted - In response to the COVID-19 coronavirus pandemic, the International Accounting Standards Board has issued amendments to IFRS 16 Leases to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. Consequently, such rent concessions that are not treated as lease modifications will be accounted for as a variable lease payment and be recognized in profit or loss. The Bank opt for early application of this amendment to IFRS16 and applied practical expedient in 2020, resulting in income in the amount RSD 4,860 thousand. Disclosure is made in Note 19.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

(b) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (Continued)

The Bank's Management is currently in the process of assessing the potential impact of the following standards and interpretations to the Bank's financial statements, as well as the date of their entering into force:

- Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 effective for 1 January 2021 – changes in IBOR reform relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37) amendments are effective for annual periods beginning on or after 1 January 2022 - The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

- Annual Improvements to IFRS Standards 2018-2020 - The amendments to IFRS 1, IFRS 9, and IAS 41 are all effective for annual periods beginning on or after January 1, 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for annual periods beginning on or after 1 January 2022 - the purpose of this project is to clarify the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment (PPE) into use.

- Reference to the Conceptual Framework (Amendments to IFRS 3) - effective for annual periods beginning on or after 1 January 2022

- IFRS 17 Insurance Contracts, effective for annual periods beginning on or after 1 January 2023 - IFRS 17 sets out the requirements for a company reporting information about insurance contracts it issues and reinsurance contracts it holds.

- Classification of liabilities as current or non-current (Amendments to IAS 1), effective for annual periods beginning on or after 1 January 2023 - providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

- Amendments to IFRS 17, effective for annual periods beginning on or after 1 January 2023 - The amendments are aimed at helping companies implement the Standard and making it easier for them to explain their financial performance.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) Optional with an unlimited date of application

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

The accompanying financial statements are separate financial statements, since they include unconsolidated captions of receivables, liabilities, operating results, changes in equity and cash flows of the Bank, excluding its subsidiaries – Intesa Leasing d.o.o. Belgrade and Intesa Invest, which are 100% owned by the Bank. The Bank recognizes its investment in this subsidiary at cost. Total asset of subsidiary Intesa Leasing is 3.04% (31.12.2019: 2.44%), while total assets of subsidiary Intesa Invest is 0.03% (31.12.2019: 0.03%) of the total Bank`s assets as at 31 December 2020.

In accordance with the provisions of IFRS 10 "Consolidated financial statements", the Bank is exempted from preparation of consolidated financial statements, taking into consideration that the ultimate parent company, Intesa Sanpaolo S.p.A., regularly prepares and disclosed consolidated financial statements in accordance with IFRS adopted by EU. These financial statements are published on the official website of Intesa Sanpaolo Group: www.group.intesasanpaolo.com.

Although the Bank is obliged to prepare annual consolidated financial statements and submit them to the Business Registers Agency in accordance with the Law on accounting, still the Bank uses its right specified by Law on banks, article 55 paragraph 4, by which it does not include subsidiaries in annual audit of its consolidated financial statements, based on the consent of National bank of Serbia.

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies other than functional currency are considered transactions in foreign currency.

The accompanying financial statements have been prepared under the going concern principle, which implies that the Bank will continue its operations in the foreseeable future.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

2.2. Comparative data

Accounting policies and estimates relating to recognition and measurement of assets and liabilities, applied in the preparation of these financial statements, are consistent with those applied in the preparation of the annual financial statements of the Bank for the year31 December 2019, except changes in the estimated useful lives of intangible assets as described in Note 2.15 Intangible assets and changes in the valuation model of expected credit losses, disclosed in Note 28.1 Credit risk.

2.3. Significant accounting estimates and judgments

Use of estimates

The preparation and presentation of the financial statements requires the Bank's management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of preparation of the financial statements, as well as income and expenses for the reporting period.

These estimates and assumptions are based on information available as of the date of the preparation of the financial statements. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, while changes in estimates are recognized in the income statement in the periods in which they become known.

The estimates and assumptions that have a risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are addressed below.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Bank recognizes impairment for expected credit losses for financial assets that are measured at amortized cost as well as for debt financial assets that are measured at fair value through other comprehensive income, lease receivables, loan commitments and issued guarantees. Carrying value of financial instruments measured at amortized cost is decreased by the amount of impairment for expected credit losses.

Judgments and estimates that the Bank uses as input in the expected credit loss model, together with the assessment on significant increase of credit risk, are disclosed in the Note 28.1. Credit risk.

Classification of financial assets

The Bank assesses business model within the assets are held. Besides, the Bank assesses if contractual cash flows of financial assets are solely payments of principal and interest (Note 2.7.2.).

Useful lives of intangible assets, property, plant and equipment ("tangible assets")

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions that are basis for determination of useful life.

Due to the significant share of fixed assets in the total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position, as well as the results of its operations.

Impairment of non-financial assets

At each reporting date the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires from management to make judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

2.3. Significant accounting estimates and judgments (Continued)

Provisions for litigations

The Bank is subject to a number of legal proceedings arising from its daily operations, which relate to commercial, contractual and labor disputes, which are resolved and considered in the course of regular business activity. The Bank regularly estimates the probability of negative outcomes to these matters, as well as the amounts of probable or reasonable estimated losses.

Reasonable estimates include judgments made by management, after considering information including notifications, settlements, estimates performed by the legal department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

A provision for litigation is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 23). The required provision may change in the future, due to new developments and as additional information becomes available. Commitments, as well as positions that do not meet the criteria for provision are disclosed, unless the possibility of transferring economic benefits is remote.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax credits can be utilized. The Bank's management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning strategy (Note 14(c)).

Retirement and other post-employment benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information are disclosed in Note 23.

Leasing

Incremental borrowing rate used as discount rate in valuation of lease payables' present value, is determined by analyzing internal sources of information on borrowings and is adjusted to reflect contractual lease terms and type of leased asset.

2.4. Interest income and interest expenses

Interest income and interest expenses, including penalty interest and other income and other expenses from interest-bearing assets, as well interest bearing liabilities are recognized on an accrual basis, based on obligatory terms defined by a contract between the Bank and its customers.

Interest income and interest expense are recognized in profit and loss using effective interest rate, presenting 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 (amortized cost before decrease for expected credit losses), or
- The amortized cost of the financial liability

2.4. Interest income and interest expenses (Continued)

When calculating effective interest rate for financial instruments that are not POCI (purchased originated credit impaired), the Bank assesses future cash flows taking into consideration all contractual terms of financial instruments, but not including expected credit losses. For POCI loans, credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

Interest income is recognized for financial assets measured at amortized cost as well as for debt instruments measured through other comprehensive income. Interest expense are recognized for financial liabilities measures at amortized cost.

Loan origination fee, as part of effective interest rate, is recognized in interest income and interest expense. Loan origination fees are calculated and collected upfront, while related income is deferred and discounted using the effective interest rate method, over the life of the loan.

After objective evidence of impairment have been identified and impairment recognized, interest income on these receivables is calculated on the amortized cost basis and by applying effective interest rate, which has been used to discount future cash flows for determining impairment losses.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Fee and commission income and fee and commission expenses

Fees and commissions income and expenses originating from providing or using the banking services are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other banking services.

Fee and commission income relating to current accounts and financial instruments maintenance services are recognized over time, when the service is provided.

Income relating to transaction fees are recognized in the moment of transaction occurrence.

A contract with a customer that results in recognition of financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

2.6. Foreign currency translation

The items included in the Bank's financial statements are measured by using currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, published by National Bank of Serbia, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, published by National Bank of Serbia, prevailing at the balance sheet data (Note 31).

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses within Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

2.6. Foreign currency translation (Continued)

Gains and losses arising on translation of financial assets and liabilities indexed with the contracted foreign currency clause are credited or charged as appropriate, to the income statement, and presented within Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments

2.7.1. Initial recognition of financial instruments

Financial instruments are initially measured at fair value, increased by transaction costs (except financial assets or financial liabilities measured at fair value through profit and loss), that are directly related to acquisition or issuance of financial asset or financial liability.

Financial assets and financial liabilities are recorded in the Bank's balance sheet in the moment when the Bank is contractually committed to the instrument. Acquisition or sale of financial assets is recorded as of the settlement date, presenting the date when asset is delivered to the counterparty.

In order to determine classification and measurement, all financial assets, except derivatives and equity investments, are analyzed by the Bank through the combination of business model managing the financial asset as well as characteristics of contractual cash flows.

2.7.2. Classification

Financial assets

At initial recognition, financial asset is classified in accordance with one of the following methods of measurement: at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit and loss (FVTPL).

Financial asset is measured at amortized cost if it meets both of the following conditions and is designated as at FVTPL:

- Asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instrument is measured as FVOCI only if it meets both the following conditions and is not designated as at FVTPL:

- The assets is held within the business model whose objective is achieved by both collecting contractual cash flows and selling contractual assets, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instruments held with the aim to collect contractual cash flows and selling comprise treasury bills and the bonds of Republic of Serbia.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.2. Classification (continued)

Financial assets (continued)

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 through OCI, at the level of particular equity instrument. As of 31 December 2020, the Bank opt for FVOCI accounting of equity investment, other than investment in subsidiaries, since these instruments are not held for trading. This choice is made based on the each particular instrument in the moment of initial recognition and cannot be recalled.

Besides, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measures at amortized cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

Then Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level, because this better reflects the way the business is managed, and information is provided to management.

The information considered includes policies and strategies for the portfolio, as well as their application in practice. In particular, it is important if management strategy is focused on earning contractual interest revenue, matching duration of the financial assets to the duration of liabilities that are funding those assets or realizing cash flows through the sale of the assets. Also, the Bank considers information on how the performance of the portfolio is evaluated and reported, together with information on risks affecting the performance of the portfolio and how they are managed. Besides, the Bank considers frequency, volume and timing of financial assets sales in prior periods, the reasons for sales and plans for future sales of financial assets.

Financial assets that are managed with the aim of trading, and whose performances are assessed based on the fair value, are measured as FVTPL since they are neither held in portfolio with the purpose to collect contractual cash flows nor they are held with the double purpose of collecting the contractual cash flows and selling.

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

For the purpose of this assessment, “principal” is defined as the fair value of the financial asset 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 the other basic lending risks (e.g. liquidity risk, administrative costs), as well as profit margin.

In assessing whether contractual cash flows are solely payment of principal and interest (SPPI), the Bank considers the contractual terms of the instrument and analyses if they contain contractual terms that could change the timing or amount of contractual cash flows, resulting in fair value measurement of the instrument. Main contractual terms that are considered in assessment are: leverage features, extension and prepayment terms, characteristics that limit the Bank’s claim to cash flows to specified assets as well as features that modify consideration of time value of money, such as periodical reset of interest rates in case of financial assets with variable interest rate.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.2. Classification (continued)

Reclassifications

Financial assets are reclassified only in case when the business model for managing financial assets is changed. Reclassification is performed in line with the principles defined by IFRS.

Financial liabilities are not reclassified.

Financial liabilities

The Bank measured financial liabilities at amortized costs, except derivatives that are measured at FVTPL, where fair value adjustment is recognized in profit or loss.

2.7.3. Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when any of the following criteria are fulfilled:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement;
- either the Bank has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset;
- financial asset is written-off;
- Subsequent changes of contractual cash-flows of financial asset occurred, resulting in significant modification of cash flows of financial asset (Note 2.7.4.).

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

In case when financial asset is derecognized, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss in case of debt securities measured at FVOCI. However, in case of equity instruments measured at FVOCI, accumulated gain/loss recognized through other comprehensive income will not be recognized in profit and loss in the moment of derecognition but in equity.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is satisfied, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, while the difference in the respective carrying amounts is recognized in profit or loss.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.3. Derecognition of financial assets and financial liabilities (Continued)

The Bank ceases to recognize financial liability when the contractual terms are modified, while cash flows of modified liability are significantly changed. In that case, new financial liability is based on the modified terms and is recognized at fair value. Difference between carrying amount of financial liability and new financial liability with modified terms is recognized in profit and loss.

2.7.4. Modification of contractual cash flows

Financial assets

If contractual terms of financial asset are subsequently modified, the Bank evaluates whether the cash flows of the modified assets are substantially different. If so, then contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

Key criteria for significant modification are renegotiation of contracts with purpose to adjust to commercial terms, change in currency, change in debtor, negotiation of contractual clauses “pay if you can” or conversion debt to equity.

If the originally contracted cash flows of financial asset are subsequently contractually modified and such modification does not lead to derecognition of financial asset, the Bank recalculates gross carrying amount of financial asset as present value of renegotiated future cash flows, discounted at original effective interest rate and recognizes the amount, arising from adjustment with the new gross carrying amount, as modification gain or loss presented in position Net losses arising from impairment of financial assets not carried at fair value through profit and loss.

Abovementioned gains or losses are amortized during residual lifetime of modified financial asset. In accordance with IFRS9 requirements, in the subsequent periods the modification loss will be amortized through interest income by the end of loans’ maturity.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.5. Impairment of financial assets and provisions for risks

Financial liabilities

The Bank derecognizes financial liability when contractual terms are modified and the cash flows of the modified liability are substantially different. In this case, new financial liability is based on the modified terms and is recognized at fair value. The difference between the carrying amount of the financial liability and new financial liability with modified terms is recognized in profit and loss.

Recognition of expected credit losses

Bank calculates expected credit losses for financial assets measured at amortized cost or for debt securities measured at fair value through other comprehensive income (FVOCI). Carrying amount of financial instruments measured at amortized cost is decreased by the amount of expected credit losses.

Expected credit loss for financial assets measured at fair value through other comprehensive income (FVOCI) is recognized through other comprehensive income and income statement, and it should not decrease the carrying value of the asset in the balance sheet.

After the initial recognition, expected credit loss is calculated at every reporting date. Bank assesses, at each reporting date, the level of financial assets impairment for assets measured at amortized cost or at fair value through other comprehensive income (FVOCI). Bank's assessment is based on *"forward-looking"* expected credit loss (ECL) model.

Loss allowances is measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date and applied to financial instruments that belonging to the stage impairment 1
- ECL during the whole life of the financial instrument ("Lifetime") - these are ECLs that result from all possible default events over the expected life of a financial instrument and applied to financial instruments that belonging to the stage impairment 2 and 3

Lifetime ECL measurement during the whole life of the financial instrument applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, while in the opposite case 12-month ECL measurement applies.

Details regarding credit risk policy are presented in Note 28.1 Credit Risk.

Uncollectable receivables write-off

Financial assets' write-off / transferring to off-balance sheet is performed in accordance with the Procedure on Write-off of Uncollectable Receivables. The procedure relates to the write-off / transferring to off-balance sheet of receivables that meet the following criteria: delay in payment of receivable is more than 360 days; the Bank has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired. Exceptionally, receivables that do not fulfil the abovementioned requirements may be written-off / transferred to off-balance sheet if such decision is made by the competent authority, PAC (Problem Asset Committee), in accordance with the authorizations delegated by the Board of Directors.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.6. Renegotiated loans

If the Bank estimates that the problems of debtors and their delay in payment is temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending repayment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed and monitored, to ensure that all requirement are met and that future payments are likely to occur.

2.8. Loans and receivables from banks and other financial organizations and Loans and receivables from customers (hereinafter: Loans and receivables)

Loans and receivables include:

- Loans and receivables valued at amortized cost. Initial recognition of these loans and receivables is at fair value increased by direct transactional costs, while subsequently they are measured at amortized cost using effective interest rate method (Note 2.7.2) and
- Loans and receivables measured at fair value through profit or loss, in accordance with business model or cash flow characteristics

As of 31 December 2020, the Bank's portfolio does not include loans that meet the criteria to be valued at fair value through profit or loss.

2.9. Securities

Securities caption in the Statement of financial position includes:

- Debt securities measured at fair value through other comprehensive income (FVOCI)

For debt securities measured at FVOCI, gains or losses are recognized in OCI, except interest income, expected credit losses and foreign exchange differences that are recognized in profit and loss.

- Debt securities measured at amortized cost

For corporate bonds in RSD, which are classified as debt securities measured at amortized cost, interest income determined using the effective interest rate and expected credit losses are recorded through profit and loss.

When debt securities measured at FVOCI are derecognized, accumulated gain or loss previously recognized in OCI in equity is reclassified from equity to profit and losses.

- Equity investments measured at fair value through other comprehensive income, excluding investments in subsidiaries and associates

For equity investments that are accounted as FVOCI, changes in fair value after initial recognition are recognized in equity and are never recognized in profit and loss, not even on sale. Accumulated gains or losses recognized in other comprehensive income are transferred to retained earnings when equity investment is derecognized.
Equity investments that are accounted at FVOCI are not subject of impairment. Dividends on equity investments are accounted in profit and loss.

- Debt securities measures at fair value through profit and loss (FVTPL)

For debt securities measured at FVTPL, gains and losses from fair value adjustments are recorded through profit and loss and are not subject to impairment.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Securities (Continued)

- Shares measured at fair value through profit and loss (FVTPL)

For shares measured at FVTPL, gains and losses on fair value adjustments are recognized through profit and loss.

Interest income on treasury government bonds of the Republic of Serbia is calculated and recognized daily in the income statement.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities is recognized as income when the shareholder’s right to receive payment is established.

2.10. Receivables from derivatives and Liabilities based on derivatives (hereinafter: derivatives)

The Bank has in its portfolio financial derivatives, for which foreign exchange rate is basic underlying variable. Derivatives used by the Bank are currency swap (FX swap) and currency forward (FX forward) contracts. For accounting purposes, derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value.

Derivatives are initially recognized when the Bank becomes a party to an agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in the off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as an asset or a liability. The initial recognition of fair value applies to cases when the market price for the same or a similar derivative on an organized market is available, and when the price differs from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognized fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognize in the balance sheet (as asset or liability) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques.

In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognized at the end of each month, and the effect of changes in fair value are recognized in the income statement as the increase or decrease of fair value. Derivatives are recognized as derivatives receivable or liabilities based on derivatives, depending on whether their fair value is positive or negative. Derivatives are derecognized at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at termination date. At that moment, the ultimate effect fair value adjustment of currency financial derivatives (that the Bank currently solely as in derivatives portfolio) is recorded against realized foreign exchange differences, while all previously recognized changes in fair value (monthly recorded through unrealized foreign exchange gains/losses) are reversed.

Since there is neither an active market for derivatives in Serbia, nor a possibility for determining fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries that have developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value of derivatives that would be achieved on an active market.

The methodology mainly incorporates market factors (middle exchange rate, market interest rates and similar) to the best possible extent and is consistent with generally accepted methodologies for valuation of derivatives. At least once per month, the Bank performs back-testing and calibration of the implemented methodology for calculation of fair value by using market variables and alternative calculation methods.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11. Deposits and other financial liabilities due to banks, other financial organizations and Central Bank and Deposits and other financial liabilities due to customers

Deposits and other financial liabilities due to banks, other financial organizations and central banks, as well as deposits and other financial liabilities due to customers are initially recognized at fair value decreased by transaction costs, except for financial liabilities at fair value through profit and loss. After initial recognition, mentioned financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Within this caption, borrowings are initially measured at fair value net of transaction costs incurred and are subsequently measured at amortized cost.

Borrowings are classified as current liabilities, unless the Bank has unconditional right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.12. Other liabilities

Trade payables and other short-term operating liabilities are presented at nominal value.

2.13. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.14. Cash and balances with central bank

Cash and balances with central bank, in Balance sheet, are comprised of cash in dinars and in foreign currency, i.e. is cash at gyro and current accounts, cash on hand and other cash in dinars and foreign currency, gold and other precious metals, deposited liquid surpluses and obligatory reserves in foreign currency held at accounts with the National Bank of Serbia. Mentioned assets are highly liquid financial assets with contractual maturity up to 3 months and bear insignificant risk of their fair value change.

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

2.15. Intangible assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Computer software licenses are capitalized for costs incurred in acquiring and brining the specific software into use. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with software maintenance are recognized as an expense when incurred.

Costs that are directly associated with identifiable and unique software controlled by the Bank, and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the salaries of the team that developed the software, as well as appropriate portion of related overheads.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. Intangible assets (Continued)

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives, in all accounting periods, as follows:

	2020	2019
Licenses and similar rights	10% - 20%	10% - 20%
Licenses and similar rights	20% - 50%	20% - 50%
Core information system	10% - 14.29%	14.29%

Comparing to 2019, there were no changes in estimated useful lives of intangible assets except estimate useful lives one of the tree parts of the Core information system, whose estimated useful lives extended from7 to 10 years.

Intangible assets include unamortized software in progress, since it is still not in use.

2.16. Property, plant, equipment, leased assets, investment property and non-current assets held for sale

(a) Property, plant and equipment

Fixed assets (property, plant and equipment) are tangible assets:
- that are held by the Bank for the own use in providing services within its registered business or for administrative purposes; and
- for which it is expected to be used more than one year period.

Property, plant and equipment are recognized as an asset:
- when it is probable that future economic benefits on the basis of such asset will inflow to the Bank, and
- when the cost of such asset can be reliably measured.

At initial recognition, property, plant and equipment are stated at cost.

Cost includes expenditure that is directly attributable to the acquisition of an asset.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement of the financial period in which they are incurred.

Property, plant and equipment are subsequently measured at fair value using the revaluation model or at cost.

Revaluation is performed regularly, in a frequency sufficient for providing that the carrying amount does not differ significantly from the amount that would be obtained by applying the fair values model at the end of the reporting period.

As of 31 December 2020 the revaluation model (fair value) was used for the subsequent measurement of real estate, while other tangible assets were subsequently measured at cost.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16.1. Property, plant and equipment and investment property (Continued)

(b) Investment property

As of 31 December 2020, the Bank is not owns property as investments for generating rental income and/or increase in the market value of the property.

In accordance with IAS 40, investment property is recognized as an asset if and only if:

- it is probable that the entity will in the future realize the economic benefits from investment property, and
- when the cost such asset can be reliably measured.

Investment property is initially measured at cost. Transaction costs are included in the initial measurement. Upon initial recognition, the investment property is measured at fair value. The gain or loss arising from the change in the fair value of an investment property is recognized in the income statement of the period in which it is incurred.

(c) Leased assets

At inception of a contract, the Bank assesses whether a contract is, one contains, a lease. A contract is, or contains lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses definition of lease in IFRS 16. This policy is applied for contracts entered into (or changed) on or after 1 January 2019.

Bank acting as lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Bank recognizes a right-to-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches offices.

Besides, cost of right-to-use asset also includes:

- all payments on lease performed up to the first day of lease term, reduced by eventually received incentives in respect of leasing;
- all initial direct costs generated by lessee and
- estimate of costs that lessee will generate with dismantling and removal of the property in question, restoration of the location of the property or restoration of the property as it is specified in the lease agreement itself. Liability for related costs for lessee occurs at the first day of lease term, or as a consequence of leased asset usage during the particular period.

Right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-to-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Bank as lessee uses exemptions allowed by standard in a way that short-term lease (up to 1 year) and low-value lease (if the value of leased asset, when new, is below 5,000 EUR net of tax) are not recognized as right-of-use-assets, while all payments that occur in respect to such leases are recognized as expense for the period.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16.1. Property, plant and equipment and investment property (Continued)

c) Leased assets (Continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Future lease payments are discounted using the interest rate implicit if such rate is readily available. If rate is not easily determinable, the Bank uses incremental borrowing rate of lessee effective at the inception date of lease term.

Lease payments included in the measurement of the lease liability at commencement of lease comprise the following payments related to right-of-use assets during lease term, which are not settled by the commencement date:

- fixed payments, reduced by eventually received incentives in relation to lease;
- variable payments that depend on certain index or rate and which are initially measured using index or rate at the commencement date.
- amounts expected to be payable under residual value guarantee;
- the exercise price under a repurchase option that the Bank is reasonably certain to exercise;
- penalties for early termination of a lease, if lease term shows that the lessee used such option

After initial recognition, lease liabilities are subsequently measured in a way to:

- increase their carrying value, so that interest on lease liability is included
- decrease their carrying value by the amounts paid on leasing; and
- remeasure carrying value with the aim to include all eventual reassessments or changes in lease relevant for its reassessment

Interest on lease liabilities during the lease period will be equal to amount that brings constant periodical rate on the residual lease liability.

Lessee remeasures lease liability by discounting of revised lease payments at revised discount rate (for the remaining lease term) in case of one of the following:

- change in lease maturity
- change in the repurchase option of leased asset

Lease modifications

Lease modification is treated as separate lease when:

- such modification expands the lease scope, by adding the right to use of one or more assets, and at the same time
- rent is increased proportionately to stand-alone price of such expansion and all necessary adjustments of that stand-alone price, in order to reflect the circumstances of the particular contract

If modification of lease is not treated as separate lease, than with the effective date of such modification, the Bank applies standards and allocates compensation from modified contract, determines duration of modified lease term and remeasures lease liability by discounting revised lease payments at revised discount rate.

In case of modification that are is treated as separate lease, lease liability is remeasured in a way to:

- decrease carrying value of right-to-use asset, in order to reflect partial or complete termination of lease for those modifications which decrease the scope of lease. Any gain or loss in respect to partial or full lease termination is recognized in income statement;
- adjust right-to-use asset for all other lease modifications

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Property, plant, equipment and investment property and non-current assets held for sale (Continued)

(c) Leased assets (Continued)

In response to the Covid-19 pandemic, the International Accounting Standards Board issued amendments to IFRS 16 Leasing to allow lessees not to consider lease concessions as modifications to leases if the concessions are a direct consequence of Covid-19 and meet certain conditions. Consequently, such concessions in lease payments are accounted for as variable lease payments and recognized in the income statement. The bank applied this exemption in 2020. The effects are disclosed in Note 19.

The Bank discloses right-to-use assets in position Property, plant and equipment and they relate to lease of real estate, vehicles, ICT equipment and other equipment, while disclosed lease liability within item Other liabilities in financial statements.

(d) Depreciation

Depreciation was calculated using the straight-line method applied to the cost of property, plant and equipment, using the following prescribed annual rates in order to write them off over their useful lives, in all accounting periods:

	2020	2019
Buildings	3-%-5%	3% - 5%
Computer equipment	20%	20%
Furniture and other equipment	7% - 25%	7% - 25%

Depreciation of right-of-use assets is calculated at rates that correspond the type of particular leased asset.

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount are not decreased by residual value, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation of property and equipment commences at the beginning of the month following the month when an asset is put into use. Depreciation charge is recognized as expense for the period when incurred.

The useful live of asset is reviewed periodically, and adjusted if necessary, at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property, plant and equipment are credited or debited in the income statement, included in other operating income or other expenses, respectively.

The calculation of depreciation for tax purposes is determined in accordance with the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes, which gives rise to deferred taxes (Note 14(c)).

2.16.2. Non-current assets held for sale

In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", the Bank classifies a fixed asset as a non-current asset held for sale if its carrying amount is expected to be recovered primarily through a sales transaction, rather than through further use. An asset classified as held for sale must be available for immediate sale in its present condition and its sale must be probable.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16.2. Non-current assets held for sale(continued)

In order to make sale probable, management of the Bank must be committed to a plan to sell the asset and an active program to locate a buyer and completion of the plan must have been initiated, and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should occur within one year from the date of recognition. Events or circumstances out of the Bank's control may prolong sale completion period to more than one year.

A non-current asset classified as held for sale is measured at the lower of: the:
- carrying amount; or
- fair value less costs to sell.

Once a non-current asset is recognized as a held-for sale it is no longer depreciated (Note 19).

2.17. Impairment of non-financial assets

In accordance with the adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, plant and equipment and investment property.

If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing the difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

2.18. Provisions and contingencies

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements (Note 29), unless the possibility of outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

2.19. Equity

Equity consists of share capital (ordinary shares), other capital, share premium, reserves from profit and retained earnings.

Dividends on ordinary shares are recognized as a liability in the period in which the decision on their payment has been made. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the reporting period.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Employee benefits

(a) Employee taxes and contributions for social security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank is obliged to pay taxes and 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 specific rates prescribed by law.

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. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination benefits arising from restructuring

Termination benefits are payable when employment is terminated or employee is voluntarily retired, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Bank recognizes termination benefits when it is demonstrably committed to either: terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal; or provide termination benefits as a result of an offer made to encourage voluntary redundancy in order to decrease number of employees.

(c) Other employee benefits - retirement benefits

In accordance with the Labor Law and Article 31 of the General Collective Agreement, the Bank is obligated to pay retirement benefits in the amount equal to 3 average salaries realized in the Republic of Serbia, according to the latest data published by the state authority responsible for statistics. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accumulated over the period of employment.

Provision for retirement benefits and unused days of vacation are calculated by an independent actuary and are recognized in the balance sheet at the present value of discounted estimated future outflows (Note 23(c)).

2.21. Taxes and contributions

(a) Income tax

Current income tax

Current income tax represents the amount that is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year's Tax return. Final tax base used for calculating income tax at the prescribed rate of 15% is disclosed in the Tax return.

In order to determine the amount of taxable income, accounting profit is adjusted for certain permanent differences, as defined by the tax regulations through Tax balance, which is to be submitted within 180 days after the end of the period for which the tax liability is determined, except in the case of status changes:

- of status changes resulting with taxpayer termination, when tax return is submitted within 60 days from the date of status change
- bankruptcy debtor or legal entity in liquidation, under which bankruptcy proceeding has been suspended due to sell of bankruptcy debtor as legal entity, or liquidation procedure has been terminated – tax return is submitted within 15 days from the date of the decision on termination of bankruptcy/liquidation proceedings validity.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Taxes and contributions (Continued)

(a) Income tax (Continued)

Deferred income tax

Deferred income tax is recognized using the balance sheet method on temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the balance sheet date is used to determine the deferred income tax amount.

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

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

Deferred income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the official tax rates and regulations that have been enacted or substantively enacted as of the balance sheet date.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period.

Deferred income taxes related to items that are recorded directly in equity are also recorded in equity.

Transfer pricing

Up to the date of Bank’s financial statements, Tax balance for 2020 has not been submitted, considering that deadline for its submission is 180 days from the date for which the tax is determined. Bank has calculated tax effects in accordance with provisions of Corporate income tax law. Bank has not yet finished transfer pricing study, however, the management believes that there will not be material effects on 2020, since so far there were no or minimal corrections based on related parties transactions, and there was no significant changes of services types in 2020, compared to the previous year.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Taxes and contributions (Continued)

(b) Taxes and contributions not related to operating result

Taxes and contributions not related to operating result include property tax, value added tax, contributions on salaries charged to employer, as well as other taxes and contributions that are paid in accordance with the tax regulations of the Republic of Serbia and local tax regulations. These taxes and contributions are included within other expenses (Note 13).

2.22. Funds managed on behalf of third parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 26). The Bank bears no risk in respect of repayment of these placements.

3. INTEREST INCOME AND INTEREST EXPENSES

(a) Interest income and expenses by sector structure are presented as follows:

In RSD thousand

	2020	2019
Interest income		
– Central bank and other banks	343,441	665,552
– Corporate customers	5,453,297	5,251,302
– Retail customers	13,555,052	13,405,152
– Public sector	2,156,714	2,710,332
– Foreign banks and financial organizations	86,038	102,139
– Foreign entities	545,816	157,206
– Other customers	69,632	176,686
Total	**22,209,990**	**22,468,369**
Interest expenses		
– Central bank and other banks	(104,373)	(112,565)
– Corporate customers	(276,880)	(568,610)
– Retail customers	(455,422)	(447,515)
– Public sector	(262,137)	(640,428)
– Foreign banks and financial organizations	(308,057)	(282,316)
– Foreign entities	(3,714)	(4,181)
– Other customers	(3,190)	(24,566)
Total	**(1,413,773)**	**(2,080,181)**
Net interest income	**20,796,217**	**20,388,188**

Total interest income on impaired loans for the year ended 31 December 2019 amounts to RSD 29,992 thousand (2019: RSD 183,523 thousand).

3. INTEREST INCOME AND INTEREST EXPENSES (Continued)

(b) Interest income and expenses by type of financial instruments are presented as follows:

In RSD thousand

	2020	2019
Interest income		
Loans	19,737,669	19,148,832
REPO transactions	58,484	203,250
Obligatory reserves	110,891	326,461
Deposits	138,729	154,751
Securities	1,984,872	2,472,290
Other placements	179,345	162,785
Total	**22,209,990**	**22,468,369**
Interest expenses		
Loans	(314,749)	(287,964)
Deposits	(1,065,484)	(1,756,158)
Leasing	(33,222)	(35,616)
Other interest expenses	(318)	(443)
Total	**(1,413,773)**	**(2,080,181)**
Net interest income	**20,796,217**	**20,388,188**

(c) Interest income and expenses by measurement method are presented as follows:

In RSD thousand

	2020	2019
Interest income		
Financial assets at amortized cost	20,287,433	19,996,079
Financial assets fair value through OCI	1,922,557	2,472,290
Total	**22,209,990**	**22,468,369**
Interest expenses		
Financial assets at amortized cost	(1,413,773)	(2,080,181)
Total	**(1,413,773)**	**(2,080,181)**
Net interest income	**20,796,217**	**20,388,188**

Interest income calculated using the effective interest method as of 31 December 2020 is 22.209,990 RSD (2019: RSD 22,468,369 thousand), it is refer on financial assets at amortized cost and Financial assets fair value through OCI.

4. FEE AND COMMISSION INCOME AND EXPENSES

In RSD thousand

	RETAIL		CUSTOMERS (except retail)		UKUPNO	
	2020	2019	2020	2019	2020	2019
Fee and commission income						
Fee for banking services:						
– Domestic payment transaction services	960,429	1,091,878	1,650,184	1,798,521	2,610,613	2,890,399
– International payment transaction services	208,139	160,260	740,268	773,982	948,407	934,242
– Loan operations	84,481	83,801	190,666	77,023	275,147	160,824
– Cards operations	999,081	992,106	3,261,250	3,538,390	4,260,331	4,530,496
Total	**2,252,130**	**2,328,045**	**5,842,368**	**6,187,916**	**8,094,498**	**8,515,961**
Commissions related to issued guaranties and letter of credits	205,762	185,451	666,296	575,158	872,058	760,609
Current accounts maintenance	2,068,373	1,993,618	469,740	485,757	2,538,113	2,479,375
Fees slips, EDB and Telekom	107,488	164,402	-	-	107,488	164,402
Other fee and commission	63,284	102,527	149,918	171,283	213,202	273,810
Total	**4,697,037**	**4,774,043**	**7,128,322**	**7,420,114**	**11,825,359**	**12,194,157**
Fee and commission expenses						
Payment services fee:						
– Domestic	-	-	(204,347)	(193,501)	(204,347)	(193,501)
– International	-	-	(176,416)	(169,569)	(176,416)	(169,569)
National Bank of Serbia’s fee and commission	-	-	(75,477)	(79,149)	(75,477)	(79,149)
Credit Bureau’s fees	-	-	(110,611)	(134,496)	(110,611)	(134,496)
Cards operations fee	-	-	(3,428,104)	(3,610,557)	(3,428,104)	(3,610,557)
Other fees and commissions	-	-	(330,375)	(315,033)	(330,375)	(315,033)
Total	**-**	**-**	**(4,325,330)**	**(4,502,305)**	**(4,325,330)**	**(4,502,305)**
Net fee and commission income	**4,697,037**	**4,774,043**	**2,802,992**	**2,917,809**	**7,500,029**	**7,691,852**

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

In RSD thousand

	2020	2019
Gains from changes in value of:		
- currency swap	574,915	153,156
- forward	17,454	11,622
- financial instruments measured at fair value through profit and loss account- Securities	6,997	22,407
- gold and silver	21,618	16,317
- liabilities at arising from purchased shares-ISP	38	225
Total	**621,022**	**203,727**
Losses from changes in value of:		
- currency swap	130,982	(7,869)
- financial instruments measured at fair value through profit and loss account- Securities	(15,658)	(5,715)
- gold and silver	(12,120)	(4,256)
- liabilities at arising from purchased shares-ISP	(25)	(84)
Total	**(158,785)**	**(17,924)**
Net gains	**462,237**	**185,803**

6. NET GAINS/LOSSES ARISING FROM DERECOGNATION OF FINANCIAL INSTRUMENTS

a) Measured at fair value

In RSD thousand

	2020	2019
Gains arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	571	1,605
- financial instruments measured at fair value through OCI	361,974	-
Total	**362,545**	**1,605**
Losses arising from derecognition of:		
- financial instruments measured at amortized cost	(197)	(4,100)
Total	**(197)**	**(4,100)**
Net gains/(losses)	**362,348**	**(2,495)**

b) Measured at amortized cost

In RSD thousand

	2020	2019
Gains arising from derecognition of:		
- financial instruments measured at amortized cost	81,961	401,280
Total	**81,961**	**401,280**
Losses arising from derecognition of:		
- financial instruments measured at amortized cost	-	(608,649)
Total	**-**	**(608,649)**
Net gains/(losses)	**81,961**	**(207,369)**

6. NET GAINS/LOSSES ARISING FROM DERECOGNATION OF FINANCIAL INSTRUMENTS (Continued)

Law on the conversion of housing loans indexed in CHF (Official Gazette RS no. 31/2019) is issued in May 2019.

The Bank reversed impairment of loan exposures in CHF at the date of conversion through the gains arising from derecognition of financial instruments that are measured at amortized cost in the amount 167,236 thousand dinars. Within the same position, the Bank also recorded reversal of provisions for litigations in the amount 3,021 thousand dinars that related to loans in CHF which were converted into loans in EUR during 2019.

On the other hand, the Bank recognised reduction of the debt conversion amount within losses arising from derecognition of financial instruments that are measured at amortized cost in the amount 570,803 thousand dinars. Within the same position, the Bank also recorded other receivables from clients related to the loans in CHF in the amount 1,760 thousand dinars.

During 2020, there are no effects on this base.

7. NET FOREIGN EXCHANGE GAINS AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

In RSD thousand

	2020	2019
Net foreign exchange gains	1,332,561	3,319,909
Net negative effects of contracted foreign currency clause application	(19,692)	(405,968)
Net gains	**1,312,869**	**2,197,296**

8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Overview by classes

	2020	2019
Revenue from reversal of impairment of financial assets at amortized cost	5,547,463	3,526,360
Revenue from reversal of provisions from off-balance sheet items	125,462	1,108,918
Revenues from collected written-off financial assets at amortized cost	201,743	398,691
Revenue from reversal of impairment of financial assets at fair value through OCI	279,880	110,982
Revenue from modifications of financial assets at amortized cost	8,715	-
Total	**6,163,263**	**5,144,951**
Impairment losses of financial assets at amortized cost	(9,244,702)	(7,034,984)
Provisions losses from off-balance sheet items	(268,816)	(210,687)
Written-off uncollectible financial assets at amortized cost	(46,955)	(40,879)
Impairment losses on financial assets at fair value through OCI	(39,941)	(161,197)
Losses from modifications of financial assets at amortized cost	(730,427)	
Total	**(10,330,841)**	**(7,447,747)**
Net impairment loss	**(4,167,578)**	**(2,302,796)**

8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

a) Overview by classes (Continued)

During 2020, the Bank calculated loss on modification of contractual terms on loans in the amount RSD 730,427 thousand, net, which does not result in derecognition of related financial asset.

During 2020 National bank of Serbia made decisions on temporary measures for preserving financial system stability as a result of Covid-19 pandemic (Official gazette RS 33/103 and 103/2020) as well as instruction of its implementation. As the mentioned bylaws lead to a change in the agreed conditions of the financial asset (primarily the dynamics of the agreed cash flows), i.e. their modification, which in this case is not significant, i.e. does not lead to derecognition of the financial asset, the Bank in accordance of the requirements of IFRS 9, recorded modification loss which reduced amortized cost of existing financial assets which continue to recognize.

According to the Bank's management assessment, modification loss on financial assets for 2019, that does not result in derecognition of financial asset, was not material, and therefore was not recognized in statement of profit and loss.

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL

	In thousands RSD 2020
Financial assets modified during the period	
Amortized cost before modification	36,350,971
Net modification loss	175,023
Financial assets modified since initial recognition	
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the period to an amount equal to 12 month ECL from lifetime	6,227,844

(b) Movements in the allowance for impairment of financial assets and provisions for credit risk-weighted off-balance sheet items

Movements in the allowance for impairment of balance-sheet items and provisions during the years ended 31 December 2020 and 2019 were as follows:

Movements in the allowance for impairment and provisions in 2020	**In RSD thousand**
Opening balance – 1st January 2020	**13,345,318**
Charge for the year	9,513,557
Reversal of impairment losses and release of provisions during the year	(5,672,926)
Increase in provisions due to exchange rate changes	15,106
Reversal of provisions due to exchange rate changes	(17,604)
Transfer to off-balance sheet items	(1,195,662)
Sale (transfer) of receivables	(116,462)
Reversal of provisions due to passage of time (unwinding)	(29,992)
Closing balance - 31 December 2020	**15,841,335**

Off-balance exposure that are written-off during 2020 amount 890 million dinars as of 31 December 2020 and are still subject of collection techniques.

8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the allowance for impairment of financial assets and provisions for credit risk-weighted off-balance sheet items (Continued)

Movements in the allowance for impairment and provisions in 2019	**In RSD thousand**
Opening balance – 1st January 2019	**18,082,825**
Charge for the year	7,245,671
Reversal of impairment losses and release of provisions during the year	(4,635,278)
Reversal of impairment losses and release of provisions during the year due to CHF loan conversion	(167,236)
Increase in provisions due to exchange rate changes	38,038
Reversal of provisions due to exchange rate changes	(75,658)
Transfer to off-balance sheet items	(5,938,028)
Sale (transfer) of receivables	(1,021,493)
Reversal of provisions due to passage of time (unwinding)	(183,523)
Closing balance - 31 December 2019	**13,345,319**

9. OTHER OPERATING INCOME

		In RSD thousand
	2020	**2019**
Property rental income	18,906	22,521
Reimbursed expenses	865	3,017
Income from dividends and equity interests	-	1,702
Income from fees from Credit biro	26,885	33,997
Income from IT services from foreign banks	20,167	25,055
Other income	63,338	33,003
Total	**130,161**	**119,295**

10. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

		In RSD thousand
	2020	**2019**
Net salaries	3,897,606	3,813,325
Tax on employee benefits	478,497	468,547
Contributions on employee benefits	1,874,907	1,819,974
Expenses for temporary and occasional work	64,286	58,091
Other personal expenses	41,206	30,168
Provisions for retirement benefits and other employee benefits	20,379	23,142
Total	**6,376,881**	**6,213,247**

11. DEPRECIATION AND AMORTIZATION

In RSD thousand

	2020	2019
Depreciation and amortization:		
– Amortization of intangible assets (Note 18)	959,081	480,776
– Depreciation of fixed assets and investment property (Note 19)	1,141,488	1,096,363
Total	**2,100,569**	**1,577,139**

12. OTHER INCOME

In RSD thousand

	2020	2019
Release of unused provisions of liabilities	29,894	134,590
Gains from sales of fixed assets	68,442	20,488
Gains from use of write-offs assets and variable lease payments	883	383
Surpluses	7,092	3,969
Collected reported insurance damage	-	70,689
Income from rent reduction due Covid 19 (Note 19)	4,860	-
Other income	254,432	713,566
Total	**365,603**	**943,685**

13. OTHER EXPENSES

	2020	2019
Material, energy and spare parts	479,299	453,121
IT costs	913,594	617,417
Maintenance of software	305,171	573,572
Professional services	305,171	205,083
Advertising, marketing and entertainment expenses	150,734	235,494
Mail and telecommunication expenses	330,350	364,322
Insurance premiums	2,213,595	2,725,359
Maintenance of property, plant and equipment	277,278	280,174
Rental cost	293,081	373,534
Fees and commissions	114,581	204,147
Taxes and contributions	96,961	95,543
IFRS 16 tax expenses	95,085	93,721
Physical-technical security	208,859	156,656
General and administrative expenses	397,606	277,007
Expenses for provisions for liabilities	467,922	170,850
Impairment of lend plant equipment and intangible assets	17,689	76,575
Other expenses	344,224	382,063
Total	**7,532,880**	**7,284,638**

14. INCOME TAXES

(a) Components of income taxes

The components of income taxes are:

		In RSD thousand
	2020	**2019**
Current income tax	1,257,729	1,587,375
Income from deferred tax assets and reduction of deferred tax liabilities	(76,507)	(144,482)
Expenses from reduction of deferred tax assets and creation of deferred tax liabilities	170,738	166,083
Total income tax expense	**1,351,960**	**1,608,976**

(b) Numerical reconciliation of income tax recognized in the income statement and profit for the year before tax multiplied by the prescribed income tax rate

		In thousand RSD
	2020.	**2019.**
Profit before tax	**10,833,517**	**13,938,435**
Income tax at the rate of 15%	**1,625,028**	**2,090,765**
Tax effects of expense reconciliation – non-deductible expenses	8,488	2,981
Tax effects of revenue reconciliation – tax exempt income	(297,156)	(402,356)
Effects of temporary differences		
Tax effects of depreciation differences recognized for tax and statutory reporting	22,592	36,872
Payment to employees	(332)	318
Tax effects due to unpaid and paid taxes and similar tax duties	5,199	(3,008)
Tax effects in respect of real estate property impairments	1,106	11,486
Tax effects on the basis of created and used provisions for liabilities and charges	56,999	(4,405)
Tax effects of the first-time IFRS9 adoption	(142,966)	(142,966)
Other - capital gains/(losses)	3,588	(2,312)
Tax credit established in accordance with the Law on Conversion of Housing Loans Indexed in CHF	(24,817)	-
Current income tax stated in the income statement	**1,257,729**	**1,587,375**
Effective tax rate	***11.61%***	***11.39%***

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2020, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions.

The most significant amount is tax exemption of interest income generated from debt securities issued by the Republic, local governments and the National Bank of Serbia, and they are excluded from the tax base in the total amounting to RSD 1,981,042 thousand, which resulted in a tax effect in the amount of RSD 297,156 thousand, for 20120 (31 December, 2019, tax base: RSD 2,682,375 thousand; tax effect RSD 402,356 thousand).

Also, in accordance with the regulations, the Bank has decreased tax base for one fifth (third of five) of the IFRS 9 first time adoption tax effects 953,100 thousand RSD, registered at the date of the standard first application (1 January, 2018) by debiting Retained earnings from previous years in full amount of 4,765,550 thousand RSD, which resulted in tax effect of RSD 142,966 thousand (total for five years: 714,832 thousand dinars).

For the remaining period 2021-2022, proportional tax base adjustments will be done in accordance with Corporate Income Tax law provisions, up to amount of total IFRS 9 FTA effects.

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets

In accordance with IAS 12, ″Income Tax″, deferred tax assets and liabilities relate to taxable temporary differences between carrying amounts of tangible and intangible assets and their tax bases, temporary differences based on unpaid taxes that will be recognized in subsequent period, as well as for other temporary differences.

The most significant changes in deferred tax assets relate to the decrease of tax assets from using the first application of IFRS 9 effects, in the net amount of RSD 142,966 thousand, as well as for usage of the first half of tax credit calculated in the amount of 2% of the remaining debt (RSD 2,481,751 thousand) established in accordance with the Law on Conversion of Housing Loans Indexed in Swiss francs, which represents a tax credit of RSD 27,817 thousand, and it will be proportionally used in the period 2020-2021.

Movements in deferred tax assets are shown in the next tables:

In RSD thousand

2020 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to balance sheet**	**Balance as of 31 December**
Temporary differences of depreciation recognized for tax and statutory reporting	129,166	10,580	-	139,746
DTA in respect to payment to employees	937	(332)	-	605
Temporary differences based on unpaid and paid taxes and similar tax duties	12,305	5,199	-	17,504
DTA based on provisions for liabilities and charges	36,763	56,999	-	93,762
DTA based on real estate property impairment	25,091	1,106	-	26,197
DTA based on impairment of other assets	402	-	-	402
Tax effects of the first-time IFRS9 adoption	428,900	(142,966)	-	285,934
Tax credit in amount of 2% of remaining debt determined in accordance with Law on Conversion of housing loans indexed in CHF	49,635	(24,817)	0	24,818
Total	**683,199**	**(94,231)**	**-**	**588,968**

In RSD thousand

2019 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to balance sheet**	**Balance as of 31 December**
Temporary differences of depreciation recognized for tax and statutory reporting	75,482	53,684	-	129,166
DTA in respect to payment to employees	619	318	-	937
Temporary differences based on unpaid and paid taxes and similar tax duties	15,313	(3,008)	-	12,305
DTA based on provisions for liabilities and charges	16,577	20,186	-	36,763
DTA based on real estate property impairment	24,541	550	-	25,091
DTA based on impairment of other assets	402	-	-	402
Tax effects of the first-time IFRS9 adoption	571,866	(142,966)	-	428,900
Tax credit in amount of 2% of remaining debt determined in accordance with Law on Conversion of housing loans indexed in CHF	-	49,635	-	49,635
Total	**704,800**	**(21,601)**	**-**	**683,199**

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets and Liabilities (Continued)

Movements in deferred tax liabilities were as follows:

2020 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to balance sheet**	**Balance as of 31 December**
Deferred tax liabilities based on real estate fair value model	106,182	-	68,109	174,291
Sale of real estate property	-	-	(5,546)	(5,546)
Total	**106,182**	**-**	**62,563**	**168,745**

2019 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to balance sheet**	**Balance as of 31 December**
Deferred tax liabilities based on real estate fair value model	106,337	-	-	106,337
Sale of real estate property	-	-	(155)	(155)
Total	**106,337**	**-**	**(155)**	**106,182**

(d) Final current tax liability

Bank has inally calculated current tax assets reported in the balance sheet at 31 December 2020 amount to RSD 198,681 thousand (31 December 2019: RSD 478,134 thousand, current tax liability), and has been created by decreasing the amount of current income tax liability by the amount of prepaid income taxes for 2020, paid during 2020.

15. CASH AND BALANCES WITH CENTRAL BANK

(a) Cash and balances with central bank

	2020	**In RSD thousand** **2019**
In RSD		
Gyro account	71,535,618	35,482,765
Cash on hand	12,474,129	12,160,459
Deposits of surplus liquid assets	-	12,000,000
Accruals on cash and cash equivalents with Central Bank	-	886
	84,009,747	**59,644,110**
In foreign currency		
Cash on hand	7,827,467	3,805,000
Other monetary assets	19,111	18,327
Obligatory reserves with the National Bank of Serbia	50,134,789	33,854,490
	57,981,367	**37,677,817**
Gold and precious metals	80,205	70,707
Balance as of 31 December	**142,071,319**	**97,392,634**

15. CASH AND BALANCES WITH CENTRAL BANK (Continued)

(b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2020:

In RSD thousand

	Balance sheet	Cash flows*	Difference
In RSD			
Gyro account	71,535,618	71,535,618	-
Cash on hand	12,474,129	12,474,129	-
	84,009,747	**84,009,747**	**-**
In foreign currency			
Cash on hand	7,827,467	7,827,467	-
Other monetary assets	19,111	19,111	-
Obligatory reserve with the NBS	50,134,789	-	50,134,789
Foreign currency accounts (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	25,932,950	(25,932,950)
Cheques in foreign currency (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	14,324	(14,324)
	57,981,367	**33,793,852**	**24,187,515**
Gold and other precious metals	80,205	80,205	-
Balance as of 31 December	**142,071,319**	**117,883,804**	**24,187,515**

(b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2019:

	Balance sheet	Cash flows*	Difference
In RSD			
Gyro account	35,482,765	35,482,765	-
Cash on hand	12,160,459	12,160,459	-
Excess liquidity deposited with the National Bank of Serbia (*)	12,000,000	-	12,000,000
Accruals on cash and cash equivalents with Central Bank	886	-	886
	59,644,110	**47,643,224**	**12,000,886**
In foreign currency			
Cash on hand	3,805,000	3,805,000	-
Other monetary assets	18,327	18,327	-
Obligatory reserve with the NBS	33,854,490	-	33,854,490
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	5,718,527	(5,718,527)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	35,251	(35,251)
	37,677,817	**9,577,105**	**28,100,712**
Gold and other precious metals	70,707	70,707	-
Balance as of 31 December	**97,392,634**	**57,291,036**	**40,101,598**

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

15. CASH AND BALANCES WITH CENTRAL BANK (Continued)

c) Changes on financing activities, received loans

		In RSD thousand
	2020	**2019**
Opening balance 1 January	24,961,907	26,646,176
Inflow from borrowings	10,171,300	3,599,688
Outflow from borrowings	(5,497,727)	(5,144,436)
Exchange Rate Effect	7,602	(139,521)
Closing balance - 31 December	**29,643,082**	**24,961,907**

16. FINANCIAL ASSETS CLASSIFICATION

a) Receivables from derivatives

		In RSD thousand
	2020	**2019**
In RSD		
Financial derivatives	49,832	61,978
	49,832	**61,978**
Balance as of 31 December	**49,832**	**61,978**

Nominal values regarding financial derivatives are disclosed within Note 28.1 Credit risk, Derivative financial instruments part and refers to Currency (FX) Swap and Forward.

16. FINANCIAL ASSETS CLASSIFICATION (Continued)

b) INVESTMENTS IN SUBSIDIARIES AND SECURITIES

In RSD thousand

	2020					2019			
	Securities carried at fair value through Profit and Loss	Securities carried at fair value through OCI	Securities carried at amortized cost	Investments in subsidiaries	Total	Securities carried at fair value through Profit and Loss	Securities carried at fair value through OCI	Investments in subsidiaries	Total
– Shares and equity investment	76,817	27,989	-	1,199,472	1,304,278	46,951	43,062	1,199,472	1,289,485
– Debt securities issued by the Republic of Serbia	37,858	81,144,576	-	-	81,182,434	844,686	102,706,935	-	103,551,621
- Accrued interest on debt securities issued by the Republic of Serbia	285	2,382,763	-	-	2,383,048	53,322	3,142,468	-	3,195,790
Corporate bonds	-	-	5,841,028	-	5,875,000	-	-	-	-
	114,960	**83,555,328**	**5,841,028**	**1,199,472**	**90,744,760**	**944,959**	**105,892,465**	**1,199,472**	**108,036,896**
Fer value adjustment	(1,522)	797,215	-	-	795,693	4,638	1,465,598	-	1,470,236
	(1,522)	**797,215**	**-**	**-**	**795,693**	**4,638**	**1,465,598**	**-**	**1,470,236**
Balance as of 31 December	**113,438**	**84,352,543**	**5,841,028**	**1,199,472**	**91,506,481**	**949,597**	**107,358,063**	**1,199,472**	**109,507,132**

16. FINANCIAL ASSETS CLASSIFICATION (Continued)

(c) SECURITIES AND INVESTMENTS PER SHARE

In RSD thousand

	2020	2019
Investment in subsidiaries		
– Intesa Leasing d.o.o., Beograd share 100%	962,496	962,496
– Intesa Invest, Beograd share 100%	236,976	236,976
	1,199,472	**1,199,472**
Debt securities carried at fair value through profit and loss		
INTESA SANPAOLO	76,817	46,951
BONDS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA	38,600	898,008
Fer value adjustment	(1,979)	4,638
	113,438	**949,597**
Debt securities carried at fair value through OCI		
BONDS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA	83,527,339	105,849,403
Other	27,989	43,062
Fer value adjustment	797,215	1,465,598
	84,352,543	**107,358,063**
Debt securities carried at amortized cost		
Corporate bonds	5,875,000	-
Allowance for impairment	(33,972)	-
	5,841,028	**-**
Balance as of 31 December	**91,506,481**	**109,507,132**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS

(a) LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

In RSD thousand

	2020	2019
In RSD		
Loans under reverse repo transactions	-	31,261,100
Receivables for calculated interest	356	-
Current account loans	-	70
Liquidity and current assets loans	9,876,180	5,710,065
Investment loans	517,747	293,632
Other loans (a)	2,002,542	6,325
Other placements (b)	1,293,440	1,763,900
Deferred income on receivables carried at amortized cost using the effective interest rate	(22,358)	(12,848)
Accrued interest calculated on the basis of loans, deposits and other placements	11,978	6,702
Total in RSD	**13,679,885**	**39,028,946**
In foreign currency		
Foreign currency accounts (c)	25,942,854	5,720,666
Cheques	14,324	35,251
Placements approved and due with one day (overnight)	860,973	-
Other loans	877	2,633
Other non-purpose deposits	1,566,455	2,803,929
Special-purpose deposits	4,703	4,704
Other purpose deposits	256,325	43,509
Other placements (b)	11,106,647	3,534,921
Accrued interest calculated on the basis of loans, deposits and other placements	7,492	15,408
Total in foreign currency	**39,760,650**	**12,161,021**
Gross loans and receivables	**53,440,535**	**51,189,967**
Less: Allowance for impairment		
– in RSD	(15,408)	(9,791)
– in foreign currency	(20,726)	(13,619)
	(36,134)	**(23,410)**
Balance as of 31 December	**53,404,401**	**51,166,557**

(a) Other loans in RSD as at 31 December 2020 in amount of RSD 2,002,542 thousand (31 December 2019: 6,325 thousand) mostly consist of other short term loans in dinars to other banks in amount of RSD 2,000,000 thousand.

(b) Other placements in as at 31 December 2020 in amount of RSD 1,293,440 thousand (31 December 2019: RSD 1,763,900 thousand) and in foreign currency as at 31 December 2020 RSD 11,106,647 (31 December 2019: RSD 3,534,921 thousand) refers to the purchase and sale of foreign currency.

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(b) LOANS AND RECEIVABLES FROM CUSTOMERS

In RSD thousand

	2020	2019
In RSD		
Receivables for calculated interest	5,097,220	1,231,438
Accrued fee and commission	327	115
Current account loans	4,520,097	5,763,414
Consumer loans	2,487,649	2,245,155
Liquidity and current assets loans	104,240,141	65,696,342
Loans for export	655,718	-
Investment loans	96,315,613	101,949,215
Mortgage loans	94,377,634	80,667,519
Cash loans	52,850,147	40,591,395
Other loans	37,803,016	59,675,730
Receivables based on purchased placements - forfeiting	354,946	-
Receivables based on factoring without the right of recourse and reverse factoring	4,148,362	3,189,871
Receivables based on factoring with the right of recourse	361,933	453,680
Placements based on acceptances, endorsements and payments made under guarantees	18,090	97,770
Placements on ceded receivables on other grounds	1,810,862	1,844,297
Deferred income on receivables carried at amortized cost using the effective interest rate	(1,027,885)	(1,110,914)
Accrued interest calculated on the basis of loans, deposits and other placements	872,528	837,211
Accrued other income calculated on the basis of loans, deposits and other placements	154	-
Total in RSD	**404,886,552**	**363,132,238**
In foreign currency		
Interest receivable	68,245	127,531
Loans for payment of import of goods and services in foreign currency	16,578,081	19,196,319
Loans for the purchase of immovable property in the country approved to a natural person	2,657	16,293
Other loans	2,343,048	3,580,879
Receivables from factoring without recourse factoring and reverse	462,104	417,438
Accrued interest calculated on the basis of loans, deposits and other placements	45,468	56,220
Total in foreign currency	**19,499,603**	**23,394,680**
Gross loans and receivables	**424,386,155**	**386,526,918**
Less: Allowance for impairment		
– in RSD	(14,545,224)	(10,349,818)
– in foreign currency	(702,050)	(2,267,528)
	(15,247,274)	**(12,617,346)**
Balance as of 31 December	**409,138,881**	**373,909,572**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(c) OVERVIEW BY TYPE OF CLIENT

	2020			2019		
	Short-term (up to one year)	**Long-term (more than one year)**	**Total**	**Short-term (up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	3,305,418	10,374,467	13,679,885	33,032,947	5,995,998	39,028,945
– Holding companies	-	-	-	-	122	122
– Corporate customers	34,668,370	154,000,604	188,668,974	35,457,824	135,202,448	170,660,272
– Retail customers	2,800,714	200,643,149	203,443,863	2,905,877	176,149,415	179,055,292
– Public sector	1,043,010	9,577,041	10,620,051	18,524	10,749,776	10,768,300
– Foreign entities	795	307,911	308,706	158	307,868	308,026
– Other customers-non-profit institutions	123	42,156	42,279	6,321	410,484	416,805
– Other customers non-budgeted legal entities and institutions	18,226	910,767	928,993	173,113	740,689	913,802
– Other customers- companies and other legal entities in bankruptcy	356,959	516,727	873,686	357,399	652,220	1,009,619
Total in RSD	**42,193,615**	**376,372,822**	**418,566,437**	**71,952,163**	**330,209,020**	**402,161,183**
In foreign currency						
– Central bank, banks and other financial sector and insurance	1,586,978	877	1,587,855	828,167	2,633	830,800
– Holding companies	-	-	-	-	664	664
– Corporate customers	62,305	16,475,486	16,537,791	1,597,304	15,695,627	17,292,931
– Retail customers	39,398	699,619	739,017	27,854	1,082,290	1,110,144
– Public sector	2,225	196,681	198,906	3,034	269,317	272,351
– Foreign banks and financial organizations	38,172,795	-	38,172,795	11,330,222	-	11,330,222
– Foreign entities	449,661	1,570,292	2,019,953	2,247,491	2,465,166	4,712,657
– Other customers-non-profit institutions	-	2,966	2,966	-	5,536	5,536
– Other customers non-budgeted legal entities and institutions	-	872	872	-	349	349
– Other customers- companies and other legal entities in bankruptcy	50	48	98	7	42	49
Total in foreign currency	**40,313,412**	**18,946,841**	**59,260,253**	**16,034,079**	**19,521,624**	**35,555,703**
Gross loans and receivables	**82,507,027**	**395,319,663**	**477,826,690**	**87,986,242**	**349,730,644**	**437,716,886**
Less: Allowance for impairment - banks and other financial organizations	(30,969)	(5,165)	(36,134)	(20,422)	(2,989)	(23,411)
Less: Allowance for impairment- customers	(1,465,332)	(13,781,942)	(15,247,274)	(2,416,310)	(10,201,036)	(12,617,346)
	(1,496,301)	**(13,787,107)**	**(15,283,408)**	**(2,436,732)**	**(10,204,025)**	**(12,640,757)**
As at dan 31 December	**81,010,726**	**381,532,556**	**462,543,282**	**85,549,510**	**339,526,619**	**425,076,129**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

Short-term loans have been granted to companies for funding business activities within the following sectors: trade and services, manufacturing, construction, agriculture and food industry, as for the other purposes, with interest rates ranging from 2.40% and 8.00% per annum on RSD loans, and from 0.60% and 6.07% per annum on loans with the foreign currency clause and foreign currency loans.

Interest rates on the long-term loans to legal entities in RSD range from 2.30% and 8.00%, and on RSD long-term loans with the foreign currency clause, as well as on foreign currency loans, from 0.68% and 6.20% per annum.

Short-term loans to retail customers, have been approved with interest rates ranging from 4.99% to 15.00% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 4.00% to 14% per annum for loans with no currency clause, and from 1.90% do 10% per annum for loans with the foreign currency clause.

Interest rates on overdrafts on retail current accounts range from 29.85% per annum and for small corporate customers from 16.80% to 24% per annum.

Short-term loans to registered agriculture farmers have been approved with interest rates ranging from 4.99% to 9.9% per annum for loans with no currency clause, and from 3.50% do 7.50% per annum for loans with the foreign currency clause.

Long-term loans to retail customers have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 1.16% to 6.98% per annum for loans with the foreign currency clause, as well as from 4.21% to 15.00% for the loans with no currency clause.

Long-term loans to small businesses have been granted as non-purpose loans, consumer goods purchase loans, , for the period from 13 to 24 months with interest rate ranging from 3.90% to 14% per annum on loans without the foreign currency clause and from 2.80% to 10.00% per annum on loans with the foreign currency clause, while long-term loans for adaptation and the purchase of the residential and business space for the period from 13 months to 10 years with interest rates ranging from 2.90%+3m EURIBOR to 7.70%%+3M EURIBOR per annum for loans with the foreign currency clause.

Long-term loans to registered agriculture farmers have been granted as purpose loans (loans for fixed assets) and non-purpose loans (for the period from 12 months to maximum 24 months), and for working capital. Loans with a term of repayment over 24 months have been approved with interest rates ranging from 2.71% to 6.22%+6m EURIBOR, for loans with the foreign currency clause, i.e. from 4.25% to 9.90% for loans from 13 months to 24 months for loans with no currency clause.

18. INTANGIBLE ASSETS

In RSD thousand

	Licenses	Software	Intangible assets under construction	Total
COST				
Balance as of 1 January 2019	**483,323**	**3,309,195**	**2,988,383**	**6,780,901**
Additions during the year	-	-	2,054,875	2,054,875
Transfers	-	4,842,706	(4,842,706)	-
Balance as of 31 December 2019	**483,323**	**8,1551,901**	**200,552**	**8,835,776**
Additions during the year	**-**	-	996,985	996,985
Transfers	-	1,125,441	(1,125,441)	-
Disposals and write offs	(711)	(16,054)	-	(16,765)
Balance as of 31 December 2020	**482,612**	**9,261,288**	**72,096**	**9,815,996**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2019	**483,332**	**2,522,712**	**-**	**3,006,035**
Amortization charge (Note 11)	**-**	**480,776**	**-**	**480,776**
Balance as of 31 December 2019	**483,323**	**3,003,488**	**-**	**3,486,811**
Amortization charge (Note 11)	-	959,082,	-	959,082
Disposals and write offs	(711)	(14,932)	-	(15,643)
Balance as of 31 December 2020	**482,612**	**3,947,638**	**-**	**4,430,250**
Carrying value as of:				
– 31 December 2020	**-**	**5,313,650**	**72,096**	**5,385,746**
– 31 December 2019	**-**	**5,148,413**	**200,552**	**5,348,965**

The Bank has activated new Core information system/software, by its transferring from Intangible assets under construction to the Software in amount of RSD 3,554,795 thousand that represents the software value up to December 31, 2019, as well as its satellite software applications amounted to RSD 802,947 thousand. In 2020 additional increase in the value of the new core information system / software, by transferring from Intangible assets in preparation to the Software in amount of RSD 383,682 thousand, while in 2020 other accompanying software in the amount of RSD 198,773 thousand was activated

During 2020, the Bank changed the depreciation rate of the Core information system due to the change in its useful life and had the effect of reducing depreciation expenses in 2020 by RSD 80 million.

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(a) Property, plant and equipment and investment property

In RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Total property, plant and equipment	Investment property
COST/REVALUATION						
Balance as of 1 January 2019	**6,798,495**	**4,144,550**	**816,092**	**141,725**	**11,900,862**	**30,995**
Right of use assets (effects of IFRS16 first-time adoption)	**2,108,929**	**76,949**	**-**	**-**	**2,185,878**	**-**
Adjusted balance as of 01 January 2019	**8,907,424**	**4,221,499**	**816,092**	**141,725**	**14,086,740**	**30,995**
Additions during the year	-	-	-	973,085	973,085	-
Transfers from construction in progress	407,356	559,249	125,381	(1,091,986)	-	-
Transfer to Assets held for sale	-	-	-	-	-	(30,305)
Disposals and write offs	(58,105)	(344,214)	-	-	(402,319)	-
Effects of fair value appraisal as of 31 December 2019	(1,245)	-	-	-	(1,245)	86
Balance as of 31 December 2019	**9,255,430**	**4,436,534**	**941,473**	**22,824**	**14,656,261**	**776**
Balance as of 1 January 2020	**9,255,430**	**4,436,534**	**941,473**	**22,824**	**14,656,261**	**776**
Additions during the year	-	-	-	900,534	900,534	-
Transfers from construction in progress	362,776	422,920	113,683	(899,379)	-	
Transfer to Assets held for sale	(33,528)	-	-	-	(33,528)	-
Disposals and write-offs	(45,790)	(532,118)	-	-	(577,908)	(776)
Effects of fair value appraisal as of 31 December 2020*	(233,824)	-	-	-	(233,824)	-
Balance as of 31 December 2020	**9,305,064**	**4,327,336**	**1,055,156**	**23,980**	**14,711,535**	**-**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2019	**237,308**	**3,078,153**	**634,302**	**-**	**3,949,763**	**-**
Depreciation charge (Note 11)	664,220	355,003	70,140	-	1,096,363	-
Disposals and write offs	(4,630)	(338,262)	-	-	(342,892)	-
Balance as of 31 December 2019	**896,898**	**3,094,894**	**711,442**	**-**	**4,703,234**	**-**
Depreciation charge (Note 11)	684,588	385,935	70,966	-	1,141,489	-
Transfer to Assets held for sale	(3,659)	-	-	-	(3,659)	-
Disposals and write/offs	(15,460)	(527,566)	-	-	(543,26)	-
Effects of fair value appraisal as of 31 December 2020*	(716,443)	-	-	-	(716,443)	-
Balance as of 31 December 2020	**845,924**	**2,953,263**	**782,408**	**-**	**4,581,595**	**-**
Carrying value as of:						
– 31 December 2020	**8,459,140**	**1,374,073**	**272,748**	**23,980**	**10,129,940**	**-**
– 31 December 2019	**8,358,532**	**1,341,640**	**230,031**	**22,824**	**9,953,027**	**776**

Net effect of the changes on the carrying amount of buildings based on the fair value assessment as at 31 December 2020 in amount of RSD 482,619 thousand recorded as a positive changes based on decrease accumulated depreciation in the amount of RSD 716,443 thousand and negative changes based on decrease of costs in amount of RSD 233,824 thousand **.**

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

(a) Property, plant and equipment and investment property (Continued)

As of 31 December 2020, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

In accordance with the accounting policies changes from 2017 (passage from the cost model to the redetermination of value for measurement subsequent to initial disclosure of functional property), Parent bank has engaged the authorized appraisal company to assess fair value of the properties, at the level of the Intesa Sanpaolo Group, including Banca Intesa a.d. Beograd.

On 31 December 2020, the authorized appraiser carried out the assessment of the properties fair value that Banca Intesa ad Beograd uses for its own business.

Considering the change in the valuation criterion occurred at the end of the business year, depreciation for 2020 has been calculated using the preceding cost criterion, therefore, all property, both functional and investment, has been amortised up to 31 December 2020.

Total net effect at fair value assessment of property as at 31 December 2020 in amount of RSD 482,619 thousand based on:

- Net positive change in reserves as a part of the Bank's capital in amount of RSD 454,062 thousand (positive revaluation effects of RSD 572,208 thousand and negative revaluation effects in amount of RSD 118,146, thousand),
- Other income in amount of RSD 42,348 thousand and Other expenses in the amount of RSD 13,791 thousand in profit and loss

If the Bank continued to apply cost model for real estate valuation, net present value would amount to RSD 5,207,530 thousand, at December 31, 2020 (31 December 2019: RSD 5,837,744 thousand).

(b) Right of use assets

Bank leases certain number of real estates for its branches, offices and other business premises.

Lease contracts are typically concluded to the period of 5 years, with possibility of its renewal by the will of both contracting parties, as well as with the possibility to be terminated by the Lessee, with a contracted notice period of 30 or 60 days for most contracts.

Bank has also leased certain number of cars, with contract period of 5 years, as well as one lease of an equipment (server) contract with useful life period of two years.

Information about right of use assets, amounts recognized in the income statement and cash flow are shown as follows:

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

(b) Right of use assets (Continued)

In RSD thousand

	Automobile	Real estate	Equipment	Total
COST				
Balance as of 1 January 2019	**76,949**	**2,108,929**	**-**	**2,185,878**
Additions during the year	113,045	171,450	5,814	290,309
Disposals during the year	-	(16,640)	-	(16,640)
Balance as of 31 December 2019	**189,994**	**2,263,739**	**5,814**	**2,459,547**
Additions during the year	-	**279,881**	-	-
Disposals during the year	-	**(45,790)**	-	-
Balance as of 31 December 2020	**189,994**	**2,497,830**	**5,814**	**2,693,638**
ACCUMULATED DEPRECIATION				
Balance as of 1 January 2019	-	-	-	-
Depreciation charge (Note 11)	35,369	424,761	242	460,372
Contracts ending and disposals	-	(2,604)	-	(2,604)
Balance as of 31 December 2019	**35,369**	**422,157**	**242**	**457,768**
Depreciation charge (Note 11)	42,943	439,227	2,907	485,077
Contracts ending and disposals	-	(15,460)	-	(15,460)
Balance as of 31 December 2020	**78,312**	**845,924**	**3,149**	**927,385**
Carrying value as of:				
– 31 December 2019	**111,682**	**1,651,906**	**2,665**	**1,766,253**
– 1 January 2019	**154,625**	**1,841,582**	**5,572**	**2,001,779**

Amount recognized in profit and loss
Leases under the IFRS 16

In RSD thousand

	2020	2019
Interest on lease liabilities (Note 3b)	33,222	35,616
Expenses relating short-term leases (exempt from the IFRS16, Note 13)	32,989	77,592
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets (exempt from the IFRS16, Note 13)	260,092	295,942
Tax expenses – IFRS 16 (Note 13)	95,085	93,721
Income from rent reduction due Covid 19 (Note 12)	(4,860)	-
Net effects (gain) relating to variable payments and right of use assets disposals (Note 12 and 13)	266	(127)

Amounts recognized in statement of cash flows
In RSD thousand

	2020	2019
Total cash outflow for leases IFRS 16	**469,251**	**461,383**

20. OTHER ASSETS

	2020	In RSD thousand 2019
Trade receivables	293	306
Receivables from employees	5,361	6,944
Receivables for overpaid taxes, except income tax	753	2,523
Advances paid	47,243	44,053
Other receivables from operating activities (a)	2,176,106	3,130,972
Assets received through collection of receivables	374,739	245,366
Other assets (b)	1,405,420	841,739
Fee and commission receivables related to other assets:		
– in RSD	281,450	298,928
– in foreign currency	14,734	10,608
Accrued interest expenses:		
– in RSD	12	331
Accrued other expenses:		-
– in RSD	373,170	308,088
Other accruals:		-
– in RSD	178,790	171,234
– in foreign currency	-	1
Total other assets	**4,858,071**	**5,061,093**
Less: Allowance for impairment	(169,407)	(492,342)
Balance as of 31 December	**4,688,664**	**4,568,751**

(a) Other receivables from operating activities in amount of RSD 2,176,106 thousand as of 31 December 2020 (31 December 2019: RSD 3,130,972 thousand) mostly relate to receivables in RSD with respect to payment cards from other cards issuers - Master Card, VISA, DINA and AMEX in the amount of RSD 1,045,958 thousand (31 December 2019: RSD 1,794,770 thousand) and receivables from the Pension Fund RSD 350,667 thousand (31 December 2019: RSD 424,376 thousand).

(b) Other assets as at 31 December 2020 in amount of RSD 1,405,420 thousand (31 December 2019: 841,739 thousand) mostly consist of transient account for the payment cash on ATM which as at 31 December 2020 in amount of RSD 989,507 thousand (31 December 2019: RSD 841,148 thousand).

21. LIABILITIES BASED ON DERIVATIVES

	2020	In RSD thousand 2019
Liabilities based on derivatives - swap	2,589	7,869
Balance as of 31 December	**2,589**	**7,869**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

(a) DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

		In RSD thousand
	2020	**2019**
In RSD		
Transaction deposits	1,630,571	1,647,850
Deposits underlying granted loans	59,496	26,693
Special-purpose deposits	172,028	238,397
Other deposits	3,724,042	5,447,566
Interest payable	23,466	17,146
Fee and commission payable	40	19
Total in RSD	**5,609,643**	**7,377,671**
In foreign currency		
Transaction deposits	2,961,990	611,468
Deposits underlying granted loans	1,646	1,646
Special-purpose deposits	150,559	4,117
Other deposits	27,043,471	31,926,446
Received loans (a)	29,007,758	23,954,555
Other financial liabilities (b)	1,773,503	2,617,815
Interest payable	39,836	30,513
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(199,008)	(176,316)
Total in foreign currency	**60,779,755**	**58,970,244**
Balance as of 31 December	**66,389,398**	**66,347,915**

(a) During 2020 received loans in foreign currency increased in the amount of RSD 5,053,203 thousand due to new credit lines withdrawn from international financial institutions, as a part of assistance for financing small and medium enterprises in response to the consequences caused by the Covid pandemic 19

(b) Other financial liabilities in amount of RSD 1,773,503 thousand as of 31 December 2020 (31 December 2019 RSD 2,617,815 thousand) mostly related to liabilities for outstanding payments received from foreign country in foreign currency in amount of RSD 1,772,081 thousand (31 December 2019 RSD 2,617,000 thousand).

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(b) DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD thousand

	2020	2019
In RSD		
Transaction deposits	167,726,099	124,496,102
Savings deposits	7,777,880	7,652,383
Deposits underlying granted loans	738,224	1,250,239
Special-purpose deposits	7,516,585	4,447,271
Other deposits	18,809,382	38,425,337
Deposits and loans due within one day (overnight)	175,096	1,660,783
Interest payable	341,423	759,947
Total in RSD	**203,084,689**	**178,692,062**
In foreign currency		
Transaction deposits	259,541,561	229,418,355
Savings deposits	41,695,770	49,895,134
Deposits underlying granted loans	5,655,237	5,019,799
Special-purpose deposits	3,801,610	2,234,824
Other deposits	6,456,199	5,699,167
Borrowings	635,323	1,019,623
Interest payable	285,023	345,931
Total in foreign currency	**318,070,723**	**293,632,833**
Balance as of 31 December	**521,155,412**	**472,324,895**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(c) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY CONTRACTUAL MATURITY

In RSD thousand

	2019			**2019**		
	Short-term (up to one year)	**Long-term (more than one year)**	**Total**	**Short-term (up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
Transaction deposits	169,356,672	-	169,356,672	126,143,952	-	126,143,952
Saving deposits	5,283,645	2,494,235	7,777,880	5,346,864	2,305,519	7,652,383
Deposits related to granted loans	121,875	675,844	797,719	721,311	555,620	1,276,931
Special-purpose deposits	6,800,132	888,480	7,688,612	4,037,763	647,905	4,685,668
Other deposits	17,279,590	5,253,834	22,533,424	43,251,643	621,260	43,872,903
Overnight deposits and loans	175,096	-	175,096	1,660,783	-	1,660,783
Interest payable	364,889	-	364,889	777,093	-	777,093
Fee and commission payable	40	-	40	19	-	19
Total in RSD	**199,381,939**	**9,312,393**	**208,694,332**	**181,939,428**	**4,130,305**	**186,069,733**
In foreign currency						
Transaction deposits	262,503,550	-	262,503,550	230,029,822	-	230,029,822
Saving deposits	31,899,858	9,795,912	41,695,770	38,225,138	11,669,996	49,895,134
Deposits related to granted loans	2,777,802	2,879,081	5,656,883	3,523,285	1,498,160	5,021,445
Special-purpose deposits	3,733,283	218,886	3,952,169	1,735,171	503,770	2,238,941
Other deposits	33,148,798	350,872	33,499,670	36,443,532	1,182,081	37,625,613
Borrowings	-	29,643,082	29,643,082	12,272	24,961,907	24,974,179
Other financial liabilities	1,773,503	-	1,773,503	2,617,815	-	2,617,815
Interest payable	324,859	-	324,859	376,444	-	376,444
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	-	(199,008)	(199,008)	--	(176,316)	(176,316)
Total in foreign currency	**336,161,653**	**42,688,825**	**378,850,478**	**312,963,479**	**39,639,598**	**352,603,077**
Balance as of 31 December	**535,543,592**	**52,001,218**	**587,544,810**	**494,902,907**	**43,769,903**	**538,672,810**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(d) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY TYPE OF CUSTOMERS

In RSD thousand

	2019			2019		
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
– Central bank, banks and other financial sector and insurance	4,146,452	1,174,819	5,321,271	5,969,110	530,000	6,499,110
– Holding companies	-	-	-	2,946	-	2,946
– Corporate customers	99,660,380	1,550,849	101,211,229	89,717,407	1,266,708	90,984,115
– Retail customers	82,444,064	2,493,149	84,937,213	59,439,307	2,302,974	61,742,281
– Public sector	5,466,308	4,078,187	9,544,495	19,811,702	15,432	19,827,134
– Foreign banks and financial organizations	288,371	-	288,371	878,560	-	878,560
– Foreign entities	543,057	15,390	558,447	517,653	14,290	531,943
– Other customers – non-profit institutions	4,766,827	-	4,766,827	3,743,107	-	3,743,107
– Other customers – banks in bankruptcy	1,216,979	-	1,216,979	1,197,075	900	1,197,975
– Other customers- companies and other legal entities in bankruptcy	797,810	-	797,810	632,903	-	632,903
– Other customers –other financial organization in bankruptcy	102	-	102	1,474	-	1,474
– Other customers – public sector in bankruptcy	51,588	-	51,588	28,184	-	28,184
Total in RSD	**199,381,938**	**9,312,394**	**208,694,332**	**181,939,428**	**4,130,304**	**186,069,732**
In foreign currency						
– Central bank, banks and other financial sector and insurance	3,103,932	2,822	3,106,754	1,966,663	2,822	1,969,485
– Holding companies	-	-	-	235	-	235
– Corporate customers	60,592,750	2,064,452	62,657,202	44,984,252	2,363,243	47,347,495
– Retail customers	235,857,914	10,926,777	246,784,691	223,429,186	12,186,000	235,615,186
– Public sector	743,484	636,265	1,379,749	422,861	1,021,998	1,444,859
– Foreign banks and financial organizations	28,864,251	28,808,750	57,673,001	33,234,791	23,765,968	57,000,759
– Foreign entities	3,942,052	205,079	4,147,131	3,881,575	233,714	4,115,289
– Other customers - non-profit institutions	2,164,722	27,043	2,191,765	2,092,987	65,852	2,158,839
– Other customers - non-budgeted legal entities and institutions	165,576	17,637	183,213	141,988	-	141,988
– Other customers- companies and other legal entities in bankruptcy	726,891	-	726,891	2,808,849	-	2,808,849
– Other customers – public sector in bankruptcy	81	-	81	94	-	94
Total in foreign currency	**336,161,653**	**42,688,825**	**378,850,478**	**312,963,481**	**39,639,597**	**352,603,078**
Balance as of 31 December	**535,543,591**	**52,001,219**	**587,544,810**	**494,902,909**	**43,769,901**	**538,672,810**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

On the corporate transaction deposits, the Bank pays interest at rates up to 60% of the annual reference interest rate depending on the currency and the amount of deposit.

On term deposits in RSD and foreign currency, the Bank pays interest at rates ranging up to 2.50% per annum, depending on the maturity period and the currency.

On special-purpose deposits of customers and natural persons the Bank does not pay interest.

On short-term retail deposits in RSD the interest is paid at rates ranging from 0% to 2.50% per annum, depending on the maturity period. Interest rates on short-term retail deposits in foreign currency range from 0.0% to 0.30% per annum, depending on the maturity period and the currency.

Long-term retail deposits in foreign currency are deposited at interest rates ranging from 0.01% to 0.70% per annum, depending on the maturity period and the currency. Long-term retail deposits in RSD are deposited at interest rates ranging from 2.75% to 3.50% per annum, depending on the maturity period.

23. PROVISIONS

In RSD thousand

	2020	**2019**
Provisions for off-balance sheet items (a)	463,317	321,027*
Provisions for employee benefits:		
– restructuring (b)	48,136	43,079
– long-term retirement benefits and unused days of vacation (c)	234,066	213,687
Provisions for litigations (Note 29 (a))	627,526	265,215
Provisions for liabilities coverage	10,405	18,156
Balance as of 31 December	**1,383,450**	**861,164**

23. PROVISIONS (Continued)

In RSD thousand

	2020	2019
Movements in provisions for off-balance sheet items		
Opening balance	321,027	1,223,001
Release of provisions	(125,462)	(1,108,919)
Release of provisions - exchange rate	(1,648)	(6,189)
Increase of provisions	269,036	210,687
Increase of provisions – exchange rate	364	2,447
Balance as of 31 December	**463,317**	**321,027**
Movements in provisions for restructuring		
Opening balance	43,079	112,388
Release of provisions directly from provisions	(43,079)	(69,309)
Increase of provisions	48,136	-
Balance as of 31 December	**48,136**	**43,079**
Movements in provisions for employee retirement benefits and unused days of vacation		
Opening balance	213,168	190,545
Increase of provisions	20,379	23,142
Balance as of 31 December	**234,066**	**213,168**
Movements in provisions for litigations		
Opening balance	265,215	275,262
Release of provisions through profit and loss	(29,894)	(134,590)
Release of provisions through profit and loss - CHF loan conversion	-	(3,021)
Release of provisions directly from provisions	(27,581)	(25,131)
Increase of provisions	419,786	152,695
Balance as of 31 December (Notes 29)	**627,526**	**265,215**
Movements in provisions liabilities		
Opening balance	18,154	-
Release of provisions directly from provisions	(7,749)	-
Provisions	-	18,154
Balance as of 31 December	**10,405**	**18,154**

(a) According to the Bank's internal policy, provisioning for off-balance sheet items exposed to risk is performed in the same manner as for balance sheet assets, i.e. off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables when it comes to outflow of resources and probability of outflow of resources.

(b) The project of considering and analyzing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started, but is still not fully completed, therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that potentially could be redundant. For the purpose of estimate, available laws and regulations, as well as internal acts have been observed (Labor Law and Collective agreement).

(c) Long-term provision for retirement benefits has been recognized on the basis of an independent actuary's calculation at the balance sheet date in the amount of present value of estimated future cash outflows. The present value of estimated future cash outflows is calculated using the discount rate of 4% per annum, which reflects the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the Ministry of Finance Republic of Serbia.

23. PROVISIONS (Continued)

The provision was determined in accordance with the Bank's Collective Agreement, using the assumption of average salary increase rate of 4.5% per annum over the period for which the provision has been formed.

The provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date. In accordance with article 114 of the Labor Law in Republic of Serbia, during vacation an employee is entitled to compensation in the amount of average salary for the last twelve months. When calculating the provision for unused vacation days, the following factors are significant:

- average gross salary in the Bank, and
- number of unused days of vacation.

24. OTHER LIABILITIES

In RSD thousand

	2020	2019
Net salaries and compensations	365,242	130,365
Taxes, VAT, contributions and other duties payable, excluding income tax payable	245,131	525,469
Vendor liabilities	919,190	952,763
Advances received	87,101	132,106
Other liabilities (a)	2,619,362	2,990,347
	4,236,026	**4,731,050**
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	299	572
Deferred interest income:		
– in RSD	185,753	3,091
Other deferred income:		
– in RSD	73,169	64,277
Other deferrals (b)		
– in RSD	10,751,352	3,672,180
– in foreign currency	1,948,776	1,894,460
	12,959,349	**5,634,580**
Long-term lease liabilities (c)	1,756,960	1,985,703
Total	**18,952,335**	**12,351,333**
Other tax liabilities	119,095	86,333
Balance as of 31 December	**19,071,430**	**12,437,666**

(a) Other liabilities in 2020 and 2019 mostly consist of non-invoiced services to suppliers and arrears payment for credit card obligations.

(b) Other accruals in foreign currency in 2020 and 2019 mostly consist of accruals accounts balances – buy or sales of foreign currency.

24. OTHER LIABILITIES (Continued)

(c) Financial liabilities for leased equipment as of 31 December 2020 and 2019 in accordance IFRS 16 are as follows:

In RSD thousand

	2020		2019	
Minimal lease payments	**Present value**	**Contractual undiscounted cash flows**	**Present value**	**Contractual undiscounted cash flows**
Up to 1 year	1,989	2,002	4,865	5,183
From 1 to 5 years	-	-	1,989	2,002
Balance as of 31 December	**1,989**	**2,002**	**6,854**	**7,185**

(d) Liabilities from long-term real-estate, vehicles and equipment leases in accordance with IFRS 16, as of December 31, 2020 and 2109 are shown as follows:

	2020.		2019.	
Minimal lease payments	**Present value**	**Contractual undiscounted cash flows**	**Present value**	**Contractual undiscounted cash flows**
Up to 1 year	427,301	454,515	453,575	485,557
From 1 to 5 years	1,110,882	1,164,144	1,174,994	1,242,152
Over 5 years	216,788	222,919	350,279	362,763
Balance as of 31 December	**1,754,971**	**1,841,578**	**1,978,848**	**2,090,472**

25. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2020 consists of shares capital, share premium, reserves, revaluation reserves and current and previous year profit.

Structure of the Bank’s equity is presented in table below:

In RSD thousand

	2020	2019
Share capital – ordinary shares	21,315,900	21,315,900
Share premium	20,432,569	20,432,569
Reserves from profit	43,488,903	43,488,903
Fair value reserves of securities	970,755	1,896,248
Revaluation reserves arising from changes in fair value of buildings	956,224	601,696
Retained earnings	12,368,722	2,292
Current year profit	9,481,557	12,329,459
Balance as of 31 December	**109,014,630**	**100,067,067**

25. EQUITY (Continued)

(a) Equity structure(Continued)

/i/ *Share capital*

As of 31 December 2020, the Bank's registered share capital consists of 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

The Bank's shareholder as of 31 December 2020 and 2019 is presented in the table below:

Shareholder	Number of shares	Nominal share value (RSD thousand)	Share in %
ntesa Sanpaolo Holding International S.A., Luxembourg	213,159	21,315,900	100.00
Total	**213,159**	**21,315,900**	**100.00**

The amount of paid dividend during the period as well as related dividend per share are presented as follows:

	2020	2019
Paid dividend during the period (in thousand dinars)	-	20,075,923
Number of shares	-	213,159
Dividend per share (in thousand dinars)	**-**	**94.18**

/ii/ *Share premium*

Share premium amounting to of RSD 20,432,569 thousand as of 31 December 2020 (31 December 2019: RSD 20,432,569 thousand) is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand in 2007, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

/iii/ *Reserves*

		In RSD thousand
	2020	2019
Reserves from profit for estimated losses	43,488,903	43,488,903
Gains/losses from the change in the value of equity instruments	(4,431)	(3,045)
Gains/losses from the change in the value of debt instruments	975,186	1,899,293
Revaluation reserves arising from changes in fair value of buildings	956,224	601,696
Total	**45,415,882**	**45,986,847**

(b) Performance indicators – compliance with legal requirements

The Bank is required to reconcile the scope and the structure of its operations and risk placements with performance indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia passed on the basis of the aforementioned Law.

25. EQUITY (Continued)

(b) Performance indicators – compliance with legal requirements (Continued)

As of 31 December 2020, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	Prescribed	Realized 31 December 2020	Realized 31 December 2019
Regulatory capital	Minimum EUR 10 million	EUR 692 millions	EUR 695 millions
Minimum ratio of the adequacy of the basic share capital specified by the bank	Minimum 4,5%	19.85%	21.23%
Minimum ratio of the adequacy of the basic capital specified by the bank	Minimum 6%	19.85%	21.23%
Minimum ratio of the adequacy of the capital specified by the bank	Minimum 8%	19.85%	21.23%
Permanent investments indicator	Maximum 60%	12.46%	12.20%
Indicator of large and the largest permissible loans	Maximum 400%	61.30%	52.53%
Liquidity ratio	Minimum 0.8	2.15	2.25
Acid-test ratio (quick ratio)	Minimum 0.5	1.83	1.64
Liquidity coverage ratio – LCR	Minimum 1.0	2.74	2.39
Foreign currency risk indicator	Maximum 20%	1.46%	0.36%
Exposure to a single entity or to a group of related parties	Maximum 25%	20.72%	16.58%
Bank's investment in non-financial legal entity	Maximum 10%	0.02%	0,02%
Risk concentration ratio	Maximum 30%	7.00%	8.20%

26. OFF-BALANCE SHEET ITEMS

(a) Classification of off-balance sheet items by the classification category

In RSD thousand

	Off-balance sheet items to be exposed to credit risk 2020.	Provisions for Off-balance sheet items to be exposed to credit risk
Guarantees and other irrevocable commitments	85,001,727	(338,903)
Other off-balance sheet items	68,864,671	(124,414)
Balance as of 31 December	**153,866,398**	**(463,317)**

In RSD thousand

	Off-balance sheet items to be exposed to credit risk 2019.	Provisions for Off-balance sheet items to be exposed to credit risk
Guarantees and other irrevocable commitments	85,601,716	(271,034)
Other off-balance sheet items	59,253,138	(49,994)
Balance as of 31 December	**144,854,854**	**(321,028)**

26. OFF-BALANCE SHEET ITEMS (Continued)

(b) Guarantees and other irrevocable commitments

In RSD thousand

	2020	2019
Financial guarantees:		
– in RSD	8,399,654	7,070,416
– in foreign currency	8,937,207	9,430,974
	17,336,861	**16,501,390**
Commercial guarantees:		
– in RSD	10,503,009	24,819,488
– in foreign currency	17,872,754	4,550,403
	28,375,763	**29,369,891**
Uncovered letters of credit in foreign currency	753,333	799,351
Sureties and Acceptances	-	-
Sureties*	177,664	177,664
Irrevocable commitments for undisbursed loans	36,763,856	37,999,632
Other irrevocable commitments	1,594,270	753,788
	39,289,103	**39,730,435**
Balance as of 31 December	**85,001,727**	**85,601,716**

(c) Other off-balance sheet items

In RSD thousand

	2020	2019
Revocable commitments for undisbursed loans	68,864,671	59,253,138
Balance as of 31 December	**68,864,671**	**59,253,138**

27. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with the shareholder and other related parties in the ordinary course of business. The Bank realizes business transactions with its shareholder and other related party. The Bank enters into business relationship with Parent company and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2020 and 2019, as well as income and expenses for the years then ended, resulting from transactions with the shareholder and other Bank's related parties within Intesa Sanpaolo Group, stated in RSD thousand, are presented as follows:

2020	Intesa Sanpaolo S.p.A., Italy,USA, England,Germany; Romania	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova bank A.S., Slovakia	Banka Koper d.d., Slovenia	Intesa Sanpaolo Banka D.D. Bosnia and Herzegovina	CIB Bank, Hungary	Intesa Sanpaolo Holding International S.A., Luxemburg	Branch of ISP International Value Service doo Belgrade
Loans and receivables from banks and other financial organisations	6,139,438	94,708	10,373,750	87,567	71,800	19,178	-	-	-
Receivables from derivatives	32,378	-	-	-	-	-	-	-	-
Other assets	32,892	-	19,408	325	-	-	-	-	-
Total assets	**6,204,708**	**94,708**	**10,393,158**	**87,892**	**71,800**	**19,178**	**-**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central bank	28,835,585	3,777	3,343,751	-	617	8,021	-	617	57,812
Liabilities based on hedging derivative instruments	2,589	-	-	-	-	-	-	-	-
Other liabilites	408,267	-	1,989	-	-	-		-	362
Total liabilities	**29,246,441**	**3,777**	**3,345,740**	**-**	**617**	**8,021**	**-**	**617**	**58,174**
Interest income	86,190	-	112,572	-	-	-	-	-	-
Fee and commission income	42,041	4	3,702	187	7	2	-	-	4
Net profit from changes in fair value of financial instruments	29,790	-	-	-	-	-	-	-	-
Other operating income	-	-	21,097	-	-	-	-	-	-
Total income	**158,021**	**4**	**137,371**	**187**	**7**	**2**	**-**	**-**	**4**
Interest expense	(6,019)	(324)	(2,162)	-	-	-	-	-	-
Fee and commission expenses	(122,200)	(602)	-	-	(34)	(9)	-	-	-
Net loss on foreign exchange rate and FX contracts	(108,367)	(419)	-	-	-	-	-	-	-
Other expenses	(798,485)	(4,167)	-	-	-	-		-	(47,385)
Total expenses	**(1,035,071)**	**(5,512)**	**(2,162)**	**-**	**(34)**	**(9)**	**-**	**-**	**(47,385)**
Off-balance sheet items - derivatives FX SWAPs	52,745,250	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	659,382	-	1,528,542	-	-	-		-	-
Total off-balance sheet items	**53,404,632**	**-**	**1,528,542**	**-**	**-**	**-**	**-**	**-**	**-**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

27. RELATED PARTY DISCLOSURES (Continued)

2019	Intesa Sanpaolo S.p.A., Italy, England,Ireland; Romania	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova bank A.S., Slovakia	Banka Koper d.d., Slovenia	Intesa Sanpaolo Banka D.D. Bosnia and Herzegovina	CIB Bank, Hungary	Intesa Sanpaolo Holding International S.A., Luxemburg
Loans and receivables from banks and other financial organisations	4,981,379	36,203	5,986,533	21,262	21,504	19,208	-	-
Receivables from derivatives	50,356	-	-	-	-	-	-	-
Other assets	37,831	-	17,408	770	-	-	-	-
Total assets	**5,069,566**	**36,203**	**6,003,941**	**22,032**	**21,504**	**19,208**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central bank	32,545,867	626,487	176,587	-	-	90	-	-
Deposits and other liabilities to customers	-	-	-	-	-	-	-	617
Liabilities based on hedging derivative instruments	7,869	-	-	-	-	-	-	-
Other liabilites	226,586	1,021	6,854	-	-	-		-
Total liabilities	**32,780,322**	**627,508**	**183,441**	**-**	**-**	**90**	**-**	**617**
Interest income	203,482	294	71,053	-	-	-	-	-
Fee and commission income	33,599	163	1,364	217	-	-	-	-
Net profit from changes in fair value of financial instruments	42,487	-	-	-	-	-	-	-
Other operating income	25,055	-	22,069	-	-	-	-	-
Total income	**304,623**	**457**	**94,486**	**217**	**-**	**-**	**-**	**-**
Interest expense	(10,185)	(2,891)	(2,113)	-	-	-	-	-
Fee and commission expenses	(90,052)	(5,354)	(53)	(1,041)	(2,738)	(447)	-	83
Net loss on foreign exchange rate and FX contracts	(347,295)	(204)	-	-	-	-	-	-
Other expenses	(550,172)	(25,827)	-	-	-	-	(5,678)	-
Total expenses	**(997,704)**	**(34,276)**	**(2,166)**	**(1,041)**	**(2,738)**	**(447)**	**(5,678)**	**83**
Off-balance sheet items - derivatives FX SWAPs	29,610,775	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	293,767	-	-	58,432	-	-	-	-
Total off-balance sheet items	**29,904,542**	**-**	**-**	**58,432**	**-**	**-**	**-**	**-**

27. RELATED PARTY DISCLOSURES (Continued)

The above stated receivables and liabilities at the balance sheet date, as well as income and expenses arising from transactions with the related parties from the Intesa Sanpaolo Group, are the result of ordinary business activities.

Interest on the Bank's receivables and payables is calculated at the usual rates.

(a) Gross salaries and other benefits of the Executive Board's members and other key management personnel of the Bank, including the Board of Directors' members, during 2020 and 2019, are presented as follows:

		In RSD thousand
	2020	**2019**
Remunerations to the members of the Executive Board, Board of Directors and other key management of the Bank	270,699	261,175
Total	**270,699**	**261,175**

(b) Loans and receivables from the members of the Executive Board and the Board of Directors and other key management personnel of the Bank, are presented as follows:

		In RSD thousand
	2020	**2019**
Loans	52,620	59,839
Total allowances for impairment	(60)	(40)
Balance as of 31 December	**52,560**	**59,799**

28. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward a single entity or a group of related entities (concentration risk), risk of permanent investments, risk related to the country of origin of the entity to which the Bank is exposed and other risks.

The Board of Directors and the Executive Board are responsible for implementation of an adequate risk management system and for its consistent application.

The Bank's Board of Directors adopts the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

28. RISK MANAGEMENT (Continued)

The Committee for monitoring business activities (Audit Committee) analyses and adopts proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management, as well as to enable functional and organizational segregation of risk management activities from regular business activities. This department is directly responsible to the Executive Board.

The Bank has developed the comprehensive risk management system by introducing policies and procedures, as well as limits for risk levels acceptable for the Bank.

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analyzing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

28.1. Credit risk

Credit risk is the possibility of occurrence of negative effects on the bank's financial results and capital due to non-fulfilment of the debtor's obligations to banks.

Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis.

Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, is performed within the Credit Management Department.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Maximal exposure to credit risk

Maximal exposure to credit risk by the type of client as of 31 December 2020 and 2019 are presented as follows:

In RSD thousand

December 31st 2020	Balance sheet assets to be exposed to credit risk	Allowances for impairment for balance sheet assets to be exposed to credit risk	Balance sheet assets not to be exposed to credit risk	Balance sheet as of 2020
Cash and balances with Central Bank	121,689,518	-	20,381,801	142,071,319
Receivables from derivatives	- -	-	49,832	49,832
Securities	89,491,331	(33,972)	849,650	90,307,009
Loans and receivables from banks and other financial organizations	53,440,535	(36,134)	-	53,404,401
Loans and receivables from banks	42,773,919	(31,355)	-	42,742,564
Loans and receivables from other financial organizations	10,666,616	(4,779)	-	10,661,837
Loans and receivables from customers	424,386,155	(15,247,274)	-	409,138,881
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	5,385,746	5,385,746
Property, plants and equipment	-	-	10,129,940	10,129,940
Investment property	-	-	198,681	198,681
Deferred tax assets	-	-	588,968	588,968
Non-current assets held for sale and discontinued operations	-	-	22,741	22,741
Other assets	1,885,297	(60,638)	2,864,005	4,688,664
TOTAL ASSETS:	**690,892,836**	**(15,378,018)**	**41,670,836**	**717,185,654**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Maximal exposure to credit risk

In RSD thousand

December 31st 2019	Balance sheet assets to be exposed to credit risk	Allowances for impairment for balance sheet assets to be exposed to credit risk	Balance sheet assets not to be exposed to credit risk	Balance sheet as of 2019
Cash and balances with Central Bank	69,355,581	-	28,037,053	97,392,634
Receivables from derivatives	-	-	61,978	61,978
Securities	105,913,950	(24)	2,393,734	108,307,660
Loans and receivables from banks and other financial organizations	51,189,968	(23,411)	-	51,166,557
Loans and receivables from banks	45,182,980	(20,421)	-	45,162,559
Loans and receivables from other financial organizations	6,006,988	(2,990)	-	6,003,998
Loans and receivables from customers	386,526,918	(12,617,346)	-	373,909,572
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	5,348,965	5,348,965
Property, plants and equipment	-	-	9,953,027	9,953,027
Investment property	-	-	776	776
Deferred tax assets	-	-	683,199	683,199
Non-current assets held for sale and discontinued operations	-	-	38,301	38,301
Other assets	3,136,623	(383,509)	1,815,637	4,568,751
TOTAL ASSETS:	**616,123,040**	**(13,024,290)**	**49,532,142**	**652,630,892**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Maximal exposure to credit risk (Continued)

Classification of off-balance sheet items is shown in Note 26.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for risk coverage, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage of all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Delinquency Management Department, in order to manage receivables with a problem in collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Delinquency Management Department are independent units in the Bank.

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the level of required reserves level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, portfolio analysis on a monthly level, are carried out. The analysis entails measuring the adequacy of provision/reserves according to client type, risk type, according to sub-portfolios and total portfolio of the Bank.

Decision making on exposure to credit risk is performed based on proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually, depending on the client type, purpose of loan, estimated creditworthiness and current market position. Types of collateral that accompany each loan are also determined according to a client's creditworthiness analysis, type of credit risk exposure, term of placement, as well as the amount of a particular loan. Conditions for loan approvals to retail clients and entrepreneurs are determined by defining standard conditions for different types of products.

Risk price for standard types of products is calculated according to the analysis of credit costs which the Bank had in the past and historical probability of getting into default status per the same or similar type of product. Risk price for the SME and Corporate segment is calculated on the basis of the client's internal rating or historically adjusted probability of getting into default status per each rating category.

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the Parent Bank is necessary.

The Bank manages credit risk by setting up limits with respect to period, amount and results of an individual customer's creditworthiness, through diversification of loans to a larger number of customers and contracting foreign exchange clauses and index-linking to a consumer price index in order to maintain the real value of loans.

Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions for off-balance sheet items, reserves for estimated credit losses, as well as by determining the adequate price of a loan which covers the credit risk of a particular placement.

In addition to a clients' creditworthiness, risk limits are also set based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analyzed before executing a transaction.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Loan concentration risk

Loan concentration risk is the risk arising, directly or indirectly, from the Bank's exposure to the same or similar source or type of risk. The Bank controls loan concentration risk by limiting the exposure, which enables the diversification of the loan portfolio. In order to monitor more efficiently concentration risk, the Bank has determined three categories of limits: specific limits, credit risk propensity limits, general limits and regulatory limits.

Derivative financial instruments

Derivative financial instruments result in the Bank's exposure to credit risk when the fair value of such instruments is positive for the Bank.

Credit exposure arising from derivatives is calculated using the current exposure method, i.e. the sum of the positive fair value of the contract and the nominal value of the derivative multiplied by a coefficient which depends on the type and maturity of the financial derivative, as prescribed by the National Bank of Serbia.

The credit risk of derivatives is limited by determining maximum credit exposure arising from a derivative for each individual customer.

In accordance with the above mentioned, as of 31 December 2020 and 31 December 2019 the Bank has the following exposures to counterparties:

In RSD thousand

	Nominal value	**Total exposure**
Total 2020	**53,246,333**	**582,295**
Currency (FX) Swap	**52,710,193**	**559,480**
By currency:		
AUD	47,494,257	495,715
GBP	5,215,936	63,765
Currency(FX) Forward	**536,140**	**22,815**
By currency:		
EUR	191,750	2,709
USD	344,390	20,106

In RSD thousand

	Nominal value	**Total exposure**
Total 2019	**30,069,632**	**370,200**
Currency (FX) Swap	29,575,742	353,639
By currency:		
AUD	757,240	17,795
CAD	643,286	6,433
CHF	4,986,418	57,451
EUR	11,829,836	147,534
GBP	1,541,118	21,395
NOK	119,017	1,624
RSD	8,257,000	84,203
SEK	392,641	3,926
USD	1,049,186	13,278
Currency(FX) Forward	**493,890**	**16,561**
By currency:		
EUR	493,890	16,561

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Derivative financial instruments (Continued)

Stated amounts represent credit exposure on derivatives, calculated as the sum of the positive fair value of the contract and the nominal value of the derivative, multiplied by a coefficient prescribed by the National Bank Serbia. The amounts presented within the Note 26(d) represent fair value of derivatives in the Bank's books of account.

The Bank calculates capital requirements for credit valuation adjustment (CVA), in accordance with the new Decision on Capital Adequacy of Banks published by the National Bank of Serbia.

Adjustment of credit exposure, calculated only for derivative instruments, represents an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the market value of the credit risk of that counterparty to the Bank.

During 2020 the exposure to the CVA risk was negligible. As of 31 December 2020, the Bank has the following exposure to the CVA risk:

In RSD thousand

	Total exposure	
	2020	**2019**
Total	**22,815**	**16,154**
Currency (FX) Forward	22,815	16,154

Credit-related risks

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies applied for credit risk.

Derivative financial instruments (Continued)

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, type of exposure to the credit risk, placement's maturity, as well as the amount itself.

Contractual authorization, as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, state guarantees, guarantees issued by another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuation of the assets, carried out by an authorized appraiser, in order to minimize potential risk. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardized, previously defined conditions, using a scoring model, with additional analysis by credit analysts.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets

Bank applies expected credit losses model for valuating financial assets measured at amortized cost or fair value through other comprehensive income (FVOCI), except equity instruments. Banks performs this valuation on individual and collective basis.

- **Individual assessment of impairment**

The Bank performs an individual assessment of impairment i.e. impairment financial assets for each individually materially significant exposure (exposure the amount over EUR 250,000) if it is in the status of default (materially significant amount overdue more than 90 days), i.e. if there is objective evidence that the loan has been impaired.

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. In order to calculate expected credit loss different scenarios have been introduced (weighted by different probabilities) to assess future cash flows, with additional correction which take into consideration assessed macroeconomic impact (add-on).

Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's creditworthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

Assessment of impairment of financial assets

- **Collective assessment of impairment**

The Bank has defined the criteria for classifying financial instruments into corresponding impairment stages (Stage 1, 2 and 3), depending on the level of increase in credit risk since initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments valued at fair value through other comprehensive income (FVOCI).

Stage 2 relates to exposures with a significant increase in credit risk (compared to the moment of initial recognition). The criteria defined by the Bank for detecting a significant increase in credit risk are:

1.) Days past due over 30 days,
2.) Forborne status,
3.) PM (*Proactive Management*) status and
4.) Significant increase in PD (*Probability of Default*)
5.) High level of credit risk at the reporting date.

Stage 3 consists of loans, where objective or subjective evidence that the loan has been impaired exists. Objective evidence of impairment implies a continuous delay in payment of more than 90 days in a materially significant amount. The relative materiality threshold is 1% of total balance sheet exposure, while the absolute threshold differs depending on the exposure class (RSD 1,000 for debtors in the retail exposure class, and RSD 10,000 for other debtors). Subjective proof of the existence of default status i s based on Bank's assessment that the client will not be able to fully settle its obligations to the Bank, without considering collection from the collateral realization. The subjective assessment of the default status is based on quantitative and qualitative, internal and externally obtained information about the debtor (for example: number of days of current account blocking, bankruptcy / liquidation, sue and other adverse events and negative signs identified in the subjective assessment that indicate a significant deterioration of the client's financial condition and inability to settle liabilities completely).

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

When the client ceases to meet all the criteria for obtaining the status of default, the Probation Period begins, which lasts at least 90 days. During this period, the regularity in setting the client's obligations and his financial situation is monitored, in order to determine the absence of any trigger/event for obtaining the status of default. Only after the expiration of the Probation Period Bank can reconsider the reclassification of the client to the Performing status.

Different impairment stages result in different ways of calculating the expected credit losses:
- Stage 1 exposures the 12-month expected credit losses are calculated
- Stage 2 and Stage 3 exposures - *"lifetime"* expected credit losses

Bank has developed an internal methodology and calculated the risk parameters (EAD, PD, LGD, CCF). The discount rate used in the calculation is the effective interest rate of the individual contract.
In the context of calculating the lifetime expected credit losses, the Bank has developed a methodology for determining EAD (Exposure at Default) for all periods until the final maturity of a financial instrument. For amortizing products for which repayment plans are available, the future EAD is determined on the basis of repayment plans. For other products, EAD on the reporting date is used, with the credit conversion factors applied. Credit conversion factors, depending on the type of products and segments, can be regulatory or internally calculated on the basis of historical data on usage of available limits.

As the basis for calculating the *"lifetime"* PD parameter, the existing (Basel II) PD models have been used. The models have been adjusted in accordance with the requirements of IFRS 9:
- transition from TTC (Through the cycle) to PIT (Point in time) concept,
- introduction of coefficients (as PD corrections) that reflect the macroeconomic impact on the parameter for future periods, using three scenarios (baseline, best, adverse),
- *"lifetime"* projection (Markovian approach is used).

Assessment of impairment of financial assets

For segments not covered by PD models, the historical default rates have been used as approximation, with additional (above mentioned) adjustments.

For clients/exposures subject to collective assessment, the LGD (*Loss Given Default)* parameter is calculated on the basis of average historical loss rates for defined segments, whereby obtained values are additionally corrected by coefficients representing a measure of the estimated macroeconomic impact on LGD for future periods. For the purpose of macroeconomic adjustment of the LGD parameter, three scenarios are used (baseline, best, adverse).
The discounting of the LGD thus obtained is carried out using the effective interest rate of the individual contract.

The Bank incorporates forward-looking information both into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Losses.

Inclusion of forward-looking information has been performed through the adjustment of PD and LGD values in order to consider the expectations of its change linked to macroeconomic environments that can occur in the future years with respect to reporting date.

Macroeconomic adjustment of PD parameters is usually performed by applying PD coefficients obtained from internally developed PD satellite models.

The satellite models used by the Bank are based on a regression equation that quantifies the relationship between the deterioration of the loan portfolio (changes in the probability of default) and changes in macroeconomic variables and variables identified as relevant to the conditions in which the Bank operates. The model prioritizes the variables with the greatest impact on credit risk (each macro variable affects credit risk to a different degree and time horizon).

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Internal PD satellite models were developed by analysis of multi-year time series on NPL rates in the Serbian banking sector. Macroeconomic factors assessed as significant in the model are the exchange rate, changes in interest rates (reference and Euribor 6m), as well as real wages. Changes in these macroeconomic factors significantly affect the overall liabilities of the client, and thus his creditworthiness. Given the above, the internal PD satellite model has been accepted as an adequate model for predicting the required level of provisions under normal and stressful conditions. In the current conditions of the COVID-19 pandemic, the National Bank of Serbia encourages the economy and the population to overcome the problems caused by the pandemic with its measures, thus lowering the reference interest rate, keeping the exchange rate stable and introducing two moratoriums on credit obligations in 2020.

Expectations in the country as well as in the world are that during the next period the central banks will continue to act in the direction of monetary relief by further lowering the reference interest rate, keeping the exchange rate stable and helping the branches most affected by the negative effects of the pandemic. The previously mentioned projections will certainly have a positive effect on the total credit obligations of the debtor, and thus on his creditworthiness, so the application of the internal PD satellite model would lead to illogical results, i.e. the expected reduction of credit risk.

Taking into account that the real effects of the crisis are still not visible given the two moratoriums and benefits received by the population and companies, it is expected that the negative effects will be fully realized in the coming period, and therefore the projections of the model on reducing credit risk and thus releasing provisions are not acceptable. Having in mind all the above, the Bank, with the consent of the Parent Bank, decided to temporarily switch to using EBA PD coefficients for macroeconomic adjustment of PD parameters instead of applying PD coefficients obtained by internal satellite models.

Assessment of impairment of financial assets (continued)

The macroeconomic adjustment of PD is thus carried out by stress coefficients obtained from the EBA PD stress test model. The coefficients were submitted by the Parent bank and define the change in the PD parameter in relation to the base year for the redefined segment (Mortgage, Consumer Loans, Corporate Secured and Unsecured loans). EBA parameters are submitted only for the baseline and adverse scenario, so the calculation of the best scenario is done separately, as the difference between the transformed values of the baseline and adverse PD parameters which is added to the baseline scenario. The transformation is performed using the inverse standard normal distribution. The default rate of the Serbian banking sector as of December 31, 2019 is used as the initial default rate in relation to which the change in the default rate based on EBA stress test parameters is calculated for the Rest of the World, since coefficients are not available for Serbia. The table below shows the conditional default rates applied to the migration matrix to include elements relating to future events for the next 3 years from the reporting date:

			Conditional rates of non-measurement of liabilities-first group -								
			Adverse			*Baseline*			*Best*		
Segment	**Model**	***t-1***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***
Corporate	*SME&LC-2015*	*1.29%*	*3.22%*	*3.12%*	*2.36%*	3.14%	2.16%	1.15%	3.07%	1.47%	0.54%
	SME Retail	*3.32%*	*7.23%*	*7.04%*	*5.56%*	*7.09%*	*5.16%*	*3.00%*	*6.95%*	*3.71%*	*1.55%*
	SB-SE-2013	*3.22%*	*7.04%*	*6.85%*	*5.41%*	*6.90%*	*5.01%*	*2.90%*	*6.76%*	*3.60%*	*1.50%*
Retail	*IDV-2015 – Mortgage*	*0.65%*	*0.88%*	*0.87%*	*0.78%*	*0.87%*	*0.75%*	*0.58%*	*0.86%*	*0.65%*	*0.42%*
	IDV-2015 – Other Retail	*1.99%*	*2.85%*	*2.81%*	*2.47%*	*2.82%*	*2.38%*	*1.77%*	*2.78%*	*2.00%*	*1.24%*

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

				Conditional rates of non-measurement of liabilities other group								
				Adverse			*Baseline*			*Best*		
Segment	**Model**	**Stage**	***t-1***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***
Corporate	*CORPORATE – OTHER*	*Stage 1*	*1.60%*	3.87%	3.76%	2.87%	3.79%	2.63%	1.43%	*3.70%*	*1.81%*	*0.69%*
		Stage2	*6.85%*	13.30%	13.00%	10.66%	13.08%	9.99%	6.27%	*12.86%*	*7.54%*	*3.52%*
	RETAIL	*Stage 1*	*7.39%*	14.16%	13.85%	11.40%	13.93%	10.70%	6.78%	*13.70%*	*8.12%*	*3.84%*
	- OTHER	*Stage2*	*59.11%*	*72.32%*	*71.88%*	*67.93%*	*71.99%*	*66.64%*	*57.33%*	*71.65%*	*60.99%*	*46.12%*

The macro-conditioning has been carried out by using EBA Stress Test Coefficients in the absence of internally developed stress satellite models. Since EBA releases only Baseline and Adverse coefficients, Best scenario coefficients have been calculated internally on the basis of Group's methodology defined for that purpose. The forward-looking elements are calculated for the next 3 years of the residual maturity with respect to the reporting date so that Baseline risk parameters are adjusted with Add-on which takes into account all three scenarios. EBA coefficients for Rest of the World have been used for macroeconomic conditioning of LGDs, since the coefficients are not available for the state of Serbia. The value of the coefficients varies depending on the exposure segment.

Assessment of impairment of financial assets (continued)

The table below shows the coefficients used for macroeconomic conditioning of LGD values as well as the value of the additional component (Add on) obtained on the basis of all three scenarios:

	Best			*Baseline*			*Adverse*			
Segment	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	Add on
"Consumer credit"	*0.75*	*0.75*	*0.75*	*1.00*	*1.00*	*1.00*	*1.28*	*1.28*	*1.28*	*2.49%*
"Household mortgage"	*0.47*	*0.47*	*0.47*	*0.84*	*0.84*	*0.84*	*1.30*	*1.30*	*1.30*	*10.77%*
"NFC nonRE"	*0.76*	*0.76*	*0.76*	*1.00*	*1.00*	*1.00*	*1.27*	*1.27*	*1.27*	*2.26%*
"NFC RE"	*0.57*	*0.57*	*0.57*	*0.91*	*0.91*	*0.91*	*1.31*	*1.31*	*1.31*	*6.80%*

During 2020, extraordinary updates of the coefficients for macroeconomic adjustment of PD and LGD parameters were carried out, taking into account the changed macroeconomic circumstances due to the crisis caused by the Covid-19 pandemic. The total effect of the extraordinary update of macroeconomic coefficients in 2020 is an increase in expected credit losses by RSD 1,571 million.

In addition to the decision to apply EBA's PD coefficients, during the year the Bank performed several simulations of changes in credit risk depending on macroeconomic factors, based on the PD satellite model. For the baseline scenario, the bank received projections from the Economic Research Department of the Parent Bank, while for the adverse scenario, it took over the projections from the National Bank of Serbia. The National Bank of Serbia issued the Annual Report on the Stability of the Financial System, in which it projected two adverse scenarios, one of which is more conservative and reflects the deeper negative effects of the crisis. The best scenario was calculated using the previously described technique, which is also applied to EBA's best scenarios.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (continued)

For exposures belonging to the segment "Low Default Portfolio" (states, local governments and banks), the parameters obtained internal models of Parent Bank, since the Bank in this part of the portfolio does not have enough historical data to make them herself charged.

In addition to the extraordinary update of the coefficients for macroeconomic adjustment of parameters and in order to timely react to the current crisis and prudently manage credit portfolio, during the 2020 the bank has used some additional analysis and criteria for assessment of Covid-19 impact on Expected Credit Losses. Based on assessment of Covid-19 impact on different industries and clients from those industries, the bank has increased ECL for certain credit portfolio positions anticipating negative effects of the crisis. The main rational for this approach is concern that negative effects of the current crisis will not be immediately recognized and accounted for because of different Government and Central bank crisis mitigation actions and supportive measure. Thus, it is reasonable to be prudent and conservative in estimating quality of credit portfolio and adequacy of loan loss provisions.

For Corporate clients, the bank has performed analysis of Covid-19 impact on clients financial positions based on the estimated drop in turnover of industries they come from. Based on estimated drop in industries turnover, we have estimated client’s financial positions and its debt service capacities in 2020 and 2021. All clients which has annual debt service over 85% of its normal level free cash flows are considered as vulnerable. On other words, these clients have less than 15% buffer in their cash generating capacity for regular service of debt (principle and interest). All clients identified as vulnerable by this analysis were notched down by one rating grade for the purpose of ECL calculation. The exceptions are clients already rated in worst rating grade (C3) and clients which were individually assessed by Credit Department.

For other legal entities, not covered by previous analysis, we have established two criteria for identifying clients highly sensitive to Covid-19. First criteria is clients rating, B4 or lower. Second criteria is client’s industry. If client’s rating is B4 or lower, and his industry is estimated as high risk industry from the perspective of Covid-19, the client is classified in stage 2. For private individuals, we have also established two additional criteria for identification of clients particularly sensitive to Covid-19 crisis. First criteria is level of indebtedness. Second criteria is client’s industry. All exposures to clients which has debt service to income ratio (DTI ratio) higher than 50%, and come from high risk industries, are classified in stage 2. Total exposure related to clients who due to the above criteria switched from stage 1 to stage 2 on 31 December.2020 amounts to RSD 10.11 billion.

In response to the crisis caused by the Covid-19 virus pandemic, the Bank implemented a set of measures adopted by the National Bank of Serbia with the aim of supporting citizens and the economy as well as preserving the stability of the financial system of the Republic of Serbia in the pandemic situation. Some of these measures included the obligation of commercial banks to offer their clients - individuals, farmers, entrepreneurs and companies a delay in repayment (moratorium).

The repayment delay was implemented twice during 2020 on the basis of the following decisions of the National Bank of Serbia:

- Decision on temporary measures to preserve the stability of the financial system ("Official Gazette of RS", No. 33/2020)
- Decision on temporary measures for banks to mitigate the consequences of the COVID-19 pandemic in order to preserve the stability of the financial system ("Official Gazette of RS", No. 103/2020)

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (continued)

The following table shows the structure of the Bank's portfolio (gross exposures) to which the measures defined by the aforementioned decisions of the National Bank of Serbia were applied, as repayment delays (Moratorium 1 and 2), as of 31 December 2020

In thousands of dinars Gross exposures with agreed moratorium	Gross exposure	Allowances for impairment	Net exposure
Private individuals	**132,387,986**	**4,820,080**	**127,567,906**
Performing	128,333,138	2,664,940	125,668,198
Past Due	535,457	241,245	294,212
Unl.to Pay	1,366,761	690,900	675,861
Doubtful	2,152,630	1,222,995	929,635
Commercial entities	**95,555,282**	**2,756,671**	**92,798,611**
Performing	93,179,807	1,581,805	91,598,002
Past Due	23,990	10,403	13,587
Unl.to Pay	1,888,955	808,568	1,080,387
Doubtful	462,530	355,895	106,635
Total	**227,943,268**	**7,576,751**	**220,366,517**

On 14 December 2020 the National Bank of Serbia has adopted a Decision on temporary measures for banks in order to adequately manage credit risk in the conditions of the COVID-19 pandemic ("Official Gazette of RS", No. 150/2020). This decision prescribes new measures and activities that banks are obliged to apply in order to adequately manage credit risk in the conditions of the COVID-19 pandemic, while enabling new repayment reliefs However, on December 31st 2020 the Bank did not have the implemented repayment reliefs defined by this decision, having in mind the short period of time between the decision adoption and the end of the calendar year.

As an additional incentive for measures to mitigate the negative effects of the pandemic, the Government of the Republic of Serbia passed on April 16th 2020. Decision on establishing a guarantee scheme as a measure of support to the economy to mitigate the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus ("Official Gazette of RS", No. 57/2020, 62/20-dr. Regulation and 65/20-dr. regulation). The National Assembly of the Republic of Serbia is on December 17th 2020. adopted the Law on Determining the Guarantee Scheme as a Measure of Support to the Economy for Mitigating the Consequences of the COVID-19 Pandemic SARS-COV-2 (Official Gazette of the RS, No. 153/2020), which repealed the decision, thus supporting the economy continues to operate under the auspices of this Law. Under the guarantee scheme, the Republic of Serbia has undertaken the obligation as a guarantor to settle future uncollected receivables of banks arising from loans approved for the purpose of financing liquidity and working capital of commercial entities, all with the aim of mitigating the negative economic and financial consequences of the pandemic.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (continued)

Under the guarantee scheme, commercial banks provide loans to the commercial entities with a repayment period of no more than 36 months, including a grace period of 9 to 12 months. The maximum loan amount is an amount equal to less than two amounts:

- 25% of the loan client’s income from 2019 according to the financial statements to the Business Registers Agency for statistical purposes for that year, or
- the amount of EUR 3,000,000

The maximum allowed amount of the Individual Guarantee provided by the State under the Law is calculated as the product of the insured portfolio of an individual bank, the coverage rate (80%) and the maximum guarantee rate (30%). The maximum total amount of the guarantee at the level of the insured portfolio of the banking sector of the Republic of Serbia is EUR 480,000,000.

The following table shows the structure of the Bank's portfolio (gross exposures) disbursed from the guarantee scheme with the Republic of Serbia, as of 31 December 2020.

In thousands of dinars

Gross exposures from the guarantee scheme	Gross Exposure	Allowances for Impairment	Net Exposure
Performing	27,389,403	365,506	27,023,897
Past Due	-	-	-
Unl.to Pay	37,562	16,646	20,916
Doubtful	6,539	2,396	4,143
TOTAL	**27,433,504**	**384,548**	**27,048,956**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(a) Portfolio quality

The Bank manages the quality of its financial assets using the internal classification of placements, which is in compliance with the standards of the Parent Bank.
The following tables present the quality of the portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2020 and 2019 based on the Bank's rating system:

In RSD thousand

	Balance sheet assets to be classified						**Off - balance sheet items to be classified**			**Total 2020*.**	**Total 2019*.**
	Loans to Customers			**Loans to Banks**							
	Stage 1	***Stage 2***	***Stage 3***	***Stage 1***	***Stage 2***	***Stage3***	***Stage 1***	***Stage 2***	***Stage 3***		
Class:											
Performing	366,300,043	58,783,437	-	164,463,433	-	-	144,410,603	8,929,671	-	742,887,187	641,433,139
Past Due	-	-	744,933	-	-	-	-	-	6763	791,696	821,087
Unl.to Pay	-	-	3,943,307	-	-	-	-	-	349,622	4,292,929	7,452,543
Doubtful	-	-	7,166,352	-	-	-	-	-	129,739	7,296,091	5,357,175
Total	**366,300,043**	**58,783,437**	**11,854,592**	**164,463,433**	**-**	**-**	**144,410,603**	**8,929,671**	**526,124**	**755,267, 903**	**655,063,944**

In RSD thousand

	Allowances for impairment and provision customers			**Allowances for impairment and provision banks**			**Total 2020*.**	**Total 2019*.**
	Stage 1	***Stage 2***	***Stage 3***	***Stage 1***	***Stage 2***	***Stage 3***		
Class:								
Performing	2,702,029	5,507,991	-	31,355	-	-	8,241,375	5,360,852
Past Due	-	-	370,955	-	-	-	370,955	370,630
Unlikely to Pay	-	-	2,047,010	-	-	-	2,047,010	3,712,294
Doubtful	-	-	5,181,995	-	-	-	5,181,995	3,901,542
Total	**2,702,029**	**5,507,991**	**7,599,960**	**31,355**	**-**	**-**	**15,841,335**	**13,345,318**

Categories Past due, Unlikely to pay and Doubtful are non-performing receivables (impaired receivables) Total assets exposed to credit risk does not include securities relating to the bonds of the Republic of Serbia that are entirely classified as level 1

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

The following tables present the quality of the portfolio as of 31 December 2020 based on type of receivables:

In RSD thousand

Cash and balances with the central bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Bank account	71,535,618			71,535,618
Mandatory reserve with the NBS	50,134,789			50,134,789
Total	**121,670,407**			**121,670,407**

Securities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Bonds of the Republic of Serbia	89,491,331	-	-	89,491,331
Total	**89,491,331**	**-**	**-**	**89,491,331**

Loans to Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance sheet assets to be classified	209,367,148	30,908,318	4,644,667	244,920,133
Off-balance sheet items to be classified	116,584,886	7,538,891	376,282	124,500,059
Total	**325,952,034**	**38,447,209**	**5,020,949**	**369,420,192**

Loans to Retail	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance sheet assets to be classified	156,932,894	27,875,119	7,209,925	192,017,938
Off-balance sheet items to be classified	25,909,122	1,390,780	149,842	27,449,744
Total	**182,842,016**	**29,265,899**	**7,359,767**	**219,467,682**

Loans to Banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance sheet assets to be classified	42,773,915	-	-	42,773,915
Off-balance sheet items to be classified	1,916,595	-	-	1,916,595
Total	**44,690,510**	**-**	**-**	**44,690,510**

28. RISK MANAGEMENT (Continued)
28.1. Credit risk (Continued)

The following table presents the quality of the portfolio for performing clients (gross balance exposure and off-balance sheet exposure) based on the Bank's internal rating as of 31 December 2020.

In RSD thousand

	Loans to customers		Loans to banks		Balance sheet assets to be classified Total	Off balance sheet items to be classified		Total
Rating	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**		**Stage 1**	**Stage 2**	
A	128,702,630	2,859,705	-	-	131,562,335	76,502,685	465,428	208,530,448
	127,292,582							
B		26,951,167	-	-	154,243,749	57,643,126	7,242,094	219,128,969
C	5,840,627	22,880,527	-	-	28,721,154	762,660	1,221,099	30,704,913
Satisfactory	3,721,954	4,107,001	-	-	7,828,955	619,271	-	8,448,226
Good	1,405,064	953,396	-	-	2,358,460	2,739,165	-	5,097,625
Strong	80,691	-	-	-	80,691	58,790	-	139,481
Weak	29,199	-	-	-	29,199	-	-	29,199
Not covered by models	4,149,285	207,656 ,	161,152,403	-	165,509,344	4,806,698	816	170,316,858
I		-	61	-	61	685,576	-	685,637
M	368	-	2,002,225	-	2,002,593	3,656	-	2,006,249
R	-	-	-	-	-	-	-	-
S	95,077,643	823,985	1,308,744	-	97,210,372	588,976	234	97,799,582
Total	**366,300,043**	**58,783,437**	**164,463,433**	**-**	**589,546,913**	**144,410,603**	**8,929,671**	**742,887,187**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Overview of stock and movement in the allowance for impairment and provisions in 2020 and 2019 by client type:

	Loans and receivables			In RSD thousand
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2020.	**1,979,057**	**3,381,794**	**7,984,467**	**13,345,318**
Transfer to stage 1	781,677	(649,781)	(131,896)	**-**
Transfer to stage 2	(191,099)	336,044	(144,945)	**-**
Transfer to stage 3	(30,003)	(219,556)	249,559	**-**
Re-measurement	(777,937)	1,592,265	2,353,075	**3,167,403**
New production *	1,374,860	1,915,751	764,019	**4,054,630**
Collection	(403,171)	(848,526)	(2,162,195)	**(3,413,892)**
Transfer to off balance	-	-	(1,195,662)	**(1,195,662)**
Sale of receivables	-	-	(116,462)	**(116,462)**
Closing balance - 31.12.2020.	**2,733,384**	**5,507,991**	**7,599,960**	**15,841,335**

	Securities (FVOCI) and measured at amortized cost			In RSD thousand
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.20	406,198	**-**	**-**	**406,198**
Re-measurement	(95,987)	**-**	**-**	**(95,987)**
	104,291		-	**104,291**
New production	(216,394)	-	-	**(216,394)**
Collection			-	
Closing balance - 31.12.2020.	**198,108**	**-**	**-**	**198,108**

**In accordance with IFRS 9, the effect of allowance of impairment of debt securities measured through FVOCI recognized through comprehensive income and profit and loss, and they do not reduce carrying amount of debts securities in balance sheet, therefore there is a mismatch with value adjustments in the table of maximum exposure to credit risk 31 December 2020 where presented the allowance for impairment based on debts securities measured at amortized cost.

***** New production is the classification under the level of 31 December 2020, and not during the initial approval

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

In RSD thousand

Movement in the allowance for impairment and provisions in 2020	Banks			
	Stage 1	Stage 2	Stage 3	Total 2020
Opening balance - 01.01.2020.	**11,939**	**8,482**	**0**	**20,422**
Transfer to stage 1	57	(57)	-	**-**
Transfer to stage 2	-	-	-	**-**
Transfer to stage 3	-	-	-	**-**
Re-measurement	(7,656)	-	-	**(7,656)**
New production	21,336		-	**21,336**
Collection	(9,633)	(8,425)	)	**(18,058)**
	-	-	-	**-**
	-	-	-	**-**
Closing balance - 31.12.2020.	**31,355**	**-**	**0**	**31,355**

Movement in the allowance for impairment and provisions in 2020	Retail			
	Stage 1	Stage 2	Stage 3	Total 2020
Opening balance - 01.01.2020.	**876,379**	**1,686,163**	**3,444,858**	**6,007,400**
Transfer to stage 1	710,193	(579,761)	(130,432)	**-**
Transfer to stage 2	(1125,783)	268,212	(142,429)	**-**
Transfer to stage 3	(24,815)	(176,696)	201,511	**-**
Re-measurement	(748,029)	1,122,711	1,443,519	**1,818,201**
New production	275,879	354,447	120,271	**750,597**
Collection	(160,824)	(178,614)	(135,983)	**(475,421)**
Transfer to off balance	-	-	(109,112)	**(109,112)**
	-	-	-	**-**
Closing balance - 31.12.2020.	**803,000**	**2,496,462**	**4,692,203**	**7,991,665**

***** New production is the classification under the level of 31 December 2020, and not during the initial approval

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Movement in the allowance for impairment and provisions in 2020	Corporate Stage 1	Stage 2	Stage 3	Total 2020
Opening balance - 01.01.2020.	**1,090,739**	**1,687,149**	**4,539,609**	**7,317,497**
Transfer to stage 1	71,427	(69,963)	(1,464)	**-**
Transfer to stage 2	(65,316)	67,832	(2,516)	**-**
Transfer to stage 3	(5,188)	(42,860)	48,048	**-**
Re-measurement	(37,564)	469,554	909,556	**1,341,546**
New production	1,043,671	1,561,304	643,749	**3,248,724**
Collection	(272,714)	(661,487)	(2,026,212)	**(2,920,413)**
Transfer to off balance			(1,086,550)	**(1,086,550)**
Sale of receivables			(116,462)	**(116,462)**
Closing balance - 31.12.2020.	**1,865,055**	**3,011,529**	**2,907,5757**	**7,784,342**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Movement in the allowance for impairment and provisions in 2019	Loans and receivables			In RSD thousand
	Stage 1	Stage 2	Stage 3	Total
Opening balance - 01.01.2019.	**2,462,115**	**2,891,057**	**12,729,653**	**18,082,825**
Transfer to stage 1	925,323	(793,031)	(132,292)	-
Transfer to stage 2	(273,220)	399,818	(126,598)	-
Transfer to stage 3	(58,364)	(259,061)	317,425	-
Re-measurement	1,109,814	969,958	1,640,432	**1,500,576**
New production *	1,425,644	1,951,381	1,091,738	**4,468,763**
Collection	1,392,625	1,778,328	(576,370)	**(3,747,323)**
Transfer to off balance	-	-	(5,938,028)	**(5,938,028)**
Sale of receivables	-	-	(1,021,493)	**(1,021,493)**
Closing balance - 31.12.2019.	**1,979,057**	**3,381,794**	**7,984,467**	**13,345,318**

***** New production is the classification under the level of 31 December 2020 and 2019, and not during the initial approval

Movement in the allowance for impairment and provisions in 2019	Securities (FVOCI)			In RSD thousand
	Stage 1	Stage 2	Stage 3	Total
Opening balance - 01.01.2019.	**355,964**	**-**	**-**	**355,964**
Opening balance - 01.01.2019.	1,362		-	**1,362**
New production	48,872	-	-	**48,872**
Collection			-	
Closing balance - 31.12.2019.	**406,198**	**-**	**-**	**406,198**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

In RSD thousand

Movement in the allowance for impairment and provisions in 2019	Banks Stage 1	Banks Stage 2	Banks Stage 3	Total 2019
Opening balance - 01.01.2019.	**42,021**	**3**	**19**	**42,043**
Transfer to stage 1	-	-	-	**-**
Transfer to stage 2	-	-	-	**-**
Transfer to stage 3	-	-	-	**-**
Re-measurement	(66)	-	-	**(66)**
New production	11,934	8,482	-	**20,416**
Collection	(41,950)	(3)	(19)	**(41,972)**
	-	-	-	**-**
	-	-	-	**-**
Closing balance - 31.12.2019.	**11,939**	**8,482**	**0**	**20,422**

Movement in the allowance for impairment and provisions in 2019	Retail Stage 1	Retail Stage 2	Retail Stage 3	Total 2019
Opening balance - 01.01.2019.	**1,201,191**	**1,608,562**	**3,121,298**	**5,931,051**
Transfer to stage 1	716,292	(584,332)	(131,960)	-
Transfer to stage 2	(166,029)	292,519	(126,490)	-
Transfer to stage 3	(43,503)	(232,933)	276,436	-
Re-measurement	(654,971)	419,758	1,158,236	923,023
New production	676,961	1,241,643	807,742	2,726,346
Collection	(853,562)	1,059,054	(347,442)	(2,260,058)
Transfer to off balance	-	-	(1,312,962)	(1,312,962)
	-	-	-	-
Closing balance - 31.12.2019.	**876,379**	**1,686,163**	**3,444,858**	**6,007,400**

***** New production is the classification under the level of 31 December 2019, and not during the initial approval

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Movement in the allowance for impairment and provisions in 2019	Corporate Stage 1	Stage 2	Stage 3	Total 2019
Opening balance - 01.01.2019.	**1,219,084**	**1,282,492**	**9,608,154**	**12,109,730**
Transfer to stage 1	209,031	(208,699)	(332)	**-**
Transfer to stage 2	(107,191)	107,299	(108)	**-**
Transfer to stage 3	(14,861)	(26,128)	40,989	**-**
Re-measurement	(454,960)	550,200	482,378	**577,619**
New production	736,749	701,256	283,996	**1,722,001**
Collection	(497,113)	(719,271)	(228,909)	**(1,445,293)**
Transfer to off balance			(4,625,066)	**(4,625,066)**
Sale of receivables			(1,021,493)	**(1,021,493)**
Closing balance - 31.12.2019.	**1,090,739**	**1,687,149**	**4,539,609**	**7,317,497**

***** New production is the classification under the level of 31 December 2019, and not during the initial approval

Also in 2020, there are no financial assets which are credit impaired, and whose conditions have been significantly modified, so that asset has been derecognized and new financial instrument recognized (POCI).

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets
(a) Maximum exposure to credit risk*

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2020 and 2019 is presented in the table below:

In RSD thousand

	Balance sheet assets to be classified*		Off-balance sheet items to be classified**		Total ** 2020
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Serbia	433,781,861	126,568,153	151,726,746	596,259	712,646,019
Europe	2,577,792	36,060,961	200,329	935,742	39,774,824
America	25,244	998,239	2,119	-	1,025,602
Rest of the world	553,175	836,080	20,609	411,594	1,821,458
					755,267,903
Total	**436,938,072**	**164,463,433**	**151,949,803**	**1,915,595**	

In RSD thousand

	Balance sheet assets to be classified*		Off-balance sheet items to be classified**		Total ** 2019
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Serbia	372,273,172	103,235,801	140,541,397	217,739	**616,268,109**
Europe	23,207,090	10,505,480	3,224,150	530,830	**37,467,550**
America	21,672	646,539	7,527	62,519	**738,257**
Rest of the world	168,595	150,741	30,763	239,929	**590,028**
Total	**395,670,529**	**114,538,561**	**143,803,837**	**1,051,017**	**655,063,944**

**Exposure relating to the Republic of Serbia bonds was excluded*

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28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(a) Maximum exposure to credit risk* (Continued)

Analysis of the Bank's exposure to credit risk by industry sectors as of 31 December 2020 and 2019 is presented in the table below:

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2020
Industry	**235,732,126**	**124,466,886**	**360,199,012**
Trade	52,819,710	27,324,072	80,143,782
Transportation and communication	10,249,329	3,536,205	13,785,534
Construction	16,441,498	20,162,026,	36,603,524
Services, tourism and accommodation services	9,101,425	1,069,243	10,170,668
Food and beverage production	19,177,841	5,690,359	24,868,200
Permanent goods production	2,065,727	4,202,731	6,268,458
Agriculture, hunting, fishing and forestry	13,945,957	5,406,420	19,352,377,
,	111,930,639	57,075,829,	**169,006,468**
Banks	**164,463,433**	**1,916,595**	**166,380,028**
Local government	**9,188,009**	**33,173**	**9,221,182**
Retail loans	**192,038,938**	**27,449,744**	**219,467,682**
Mortgage loans	95,035,203	0	95,035,203
Other	96,982,735	27,449,744,	124,432479
	601,401,505	**153,866,398**	**755,267,903**

**Exposure relating to the Republic of Serbia bonds was excluded*

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2019
Industry	**216,825,030**	**117,434,179**	**334,259,209**
Trade	51,439,365	29,260,772	80,700,137
Transportation and communication	8,517,736	3,286,952	11,804,688
Construction	15,766,640	21,433,859	37,200,499
Services, tourism and accommodation services	6,718,628	526,335	7,244,963
Food and beverage production	14,805,224	4,522,316	19,327,540
Permanent goods production	17,434,044	8,766,317	26,200,361
Agriculture, hunting, fishing and forestry	15,659,200	5,681,604	21,340,804
Other	86,484,193	43,956,024	130,440,217
Banks	**114,538,561**	**1,051,017**	**115,589,578**
Local government	**9,150,046**	**123,543**	**9,273,589**
Retail loans	**169,695,454**	**26,246,115**	**195,941,568**
Mortgage loans	79,692,977	0	79,692,977
Other	90,002,476	26,246,115	116,248,591
	510,209,090	**144,854,854**	**655,063,944**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Ageing analysis of unimpaired loans and receivables from customers

The ageing analysis of loans and receivables from customers past due, but not impaired, as well as loans and receivables not yet due and impaired receivables, as of 31 December 2020 and 2019 is presented as follows:

In RSD thousand

	Loans to customers and banks			Total 2020
	Stage 1	*Stage 2*	*Stage 3*	
Receivables undue:	**518,881,318**	**50,648,675**	**2,908,044**	**455,558,616**
Receivables overdue:	**11,882,158**	**8,134,762**	**8,750,330**	**28,767,250**
01-30 days	11,882,158	5,520,404	436,681	17,839,243
31-60 days	-	1,696,986	201,273	1,898,259
61-90 days	-	917,372	269,036	1,186,408
>90 days	-	-	7,843,340	7,843,340
Total	**530,763,476**	**58,783,437**	**11,854,592**	**601,401,505**

*We apply the new definition of default applied in 2019. (Detailed explanation in item 28.1)

In RSD thousand

	Loans to customers and banks			Total 2019*
	Stage 1	*Stage 2*	*Stage 3*	
Receivables undue:	**444,929,793**	**34,030,215**	**2,379,321**	**481,339,329**
Receivables overdue:	**12,675,709**	**5,838,468**	**10,355,584**	**28,869,761**
01-30 days	12,675,709	3,838,805	140,045	16,654,559
31-60 days	-	1,298,794	125,420	1,424,214
61-90 days	-	700,869	175,545	876,414
>90 days	-	-	9,914,574	9,914,574
Total	**457,605,502**	**39,868,683**	**12,734,905**	**510,209,090**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Collateral analysis
Analysis of portfolio (balance sheet and off-balance sheet items), by the collateral type, as of 31 December 2020 and 2019 is presented below:

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	**`Off-balance sheet items to be exposed to credit risk****	**Total 2020.**
Corporate loans:	**235,732,126**	**124,466,886**	**360,199,012**
Secured by government	4,766,862	-	4,766,862
Secured by guaranteed	3,526,297	-	3,526,297
Secured by mortgage	16,544,226	2,842,431	19,386,657
Secured by deposit	2,197,526	1,348,587	3,546,113
Unsecured	208,697,215	120,275,869	328,973,083
Loans to government	-	-	-
Secured	-	-	-
Unsecured	-	-	-
Loans to banks:	**164,463,433**	**1,916,595**	**166,380,028**
Secured	368	1,279	1,647
Unsecured	164,463,065	1,915,316	**166,378,381**
Loans to local government:	**9,188,009**	**33,173**	**9,221,181**
Secured	19,758	-	19,758
Unsecured	9,128,705	33,173	9,221,181
Retail loans:	**192,017,938**	**27,449,743**	**219,467,682**
Secured by residential mortgage	81,395,639	-	81,395,639
Secured by non-residential mortgage	675,245	-	675,245
Secured by deposit	465,764	424,176	889,940
Unsecured	109,481,290	27,025,567	136,506,858
Total	**601,401,505**	**153,866,398**	**755,267,903**

*Exposure relating to the Republic of Serbia bonds was excluded

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	`Off-balance sheet items to be exposed to credit risk**	Total 2019
Corporate loans:	**216,825,030**	**117,434,181**	**334,259,210**
Guaranteed by government	2,353,257	-	2,353,257
Secured by mortgage	22,460,975	3,237,767	25,698,742
Secured by deposit	2,278,023	672,616	2,950,639
Unsecured	189,732,775	113,523,797	303,256,572
Loans to banks:	**114,538,561**	**1,051,017**	**115,589,578**
Unsecured	114,538,561	1,051,017	115,589,578
Loans to local government:	**9,150,045**	**123,543**	**9,273,588**
Secured	59,304	-	59,304
Unsecured	9,090,741	123,543	9,214,284
Retail loans:	**169,695,454**	**26,246,115**	**195,941,568**
Secured by residential mortgage	71,034,220	-	71,034,220
Secured by non-residential mortgage	869,536	-	869,536
Secured by deposit	250,056	-	250,056
Unsecured	97,541,642	26,246,114	123,787,756
Total	**510,209,090**	**144,854,854**	**655,063,944**

Collateral analysis (Continued)

All collaterals are presented up to the amount of receivables. Mortgage must meet the requirements of the National Bank of Serbia in order to be used as a collateral and those requirements are: to be registered, there must be an appraisal for the mortgaged property by the authorized appraiser not older than 3 years (except in the case of mortgaged residential real estate property where the amount of the outstanding bank exposure does not exceed 40% of its value), owner of the property cannot be under bankruptcy, appraised value of property reduced by all higher ranked receivables must be greater than the amount of receivables, receivables secured by the mortgage cannot be overdue for more than 720 days.
Loan to value ratio (LTV ratio) for mortgage loans as of 31 December 2020 and 2019 is as follows:

In RSD thousand

Mortgage LTV	2020.	Mortgage LTV	2019
< 50%	23,752,359	< 50%	20,732,294
51%-70%	33,044,197	51%-70%	27,851,754
71%-90%	31,014,179	71%-90%	27,260,909
91%-100%	1,460,111	91%-100%	1,506,657
> 100%	5,764,375	> 100%	2,341,364
Total	**95,035,203**	**Total**	**79,692,978**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Non-performing loan analysis

Balance sheet assets and allowances for impairment (NPL – categories: past due, unlikely to pay, doubtful and restructured) as of 31 December 2020 and 2019 are presented as follows:

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2020**
Renegotiated loans:	***Loans to customers***	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Net Balance sheet assets to be classified***
Loans	3,388,410	-	1,818,223	-	1,570,187
Allowances for impairment	8,466,182	-	5,781,737	-	2,778,995
Total	**11,854,592**	**-**	**7,599,960**	**-**	**4,349,182**

Collateral analysis (Continued)

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2019**
Renegotiated loans:	***Loans to customers***	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Net Balance sheet assets to be classified***
Loans	6,426,613	-	4,037,488	-	2,389,125
Allowances for impairment	6,308,292	-	3,807,609	-	2,500,684
Total	**12,734,905**	**-**	**7,845,097**	**-**	**4,889,808**

Renegotiated loans analysis

Balance sheet assets and allowances for impairment for renegotiated loans as of 31 December 2020 and 2019 are presented as follows:

In RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2020**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Renegotiated loans:					
Loans	3,854,960	-	-	-	3,854,960
Allowances for impairment	(1,389,628)	-	-	-	(1,389,628)
Total	**2,465,332**	**-**	**-**	**-**	**2,465,332**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Renegotiated loans analysis (Continued)

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2019
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	3,710,107	-	-	-	3,710,107
Allowances for impairment	(1,415,547)	-	-	-	(1,415,547)
Total	**2,294,560**	**-**	**-**	**-**	**2,294,560**

Renegotiated loans are all loans for which previous conditions, as term, dynamics of settlement, interest rate and etc. have been changed in order to provide benefits for the client.

Credit conversion factor analysis

Credit conversion factors (CCF) for off-balance sheet items in the portfolio as of 31 December 2020 and 31 December 2019 are presented as follows:

In RSD thousand

					Total 2020
		Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF					
	20%	86,789,062	1,631,595	-	88,420,657
	26%	1,772,599	-	-	1,772,599
	32%	8,299,954	-	-	8,299,954
	33%	469,604	-	-	469,604
	47%	1,701,543	-	19,808,969	21,510,512
	50%	21,909,329	285,000	1,772	22,196,101
	59%			7,639,003	7,639,003
	100%	3,557,968	-	-	3,557,968
Total		**124,500,059**	**1,916,595**	**27,449,744**	**153,866,398**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Credit conversion factor analysis (Continued)

In RSD thousand

Off-balance sheet items to be classified Total 2019.

	Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF				
20%	80,624,019	745,757	-	81,369,776
27%	1,648,419	-	-	1,648,419
32%	6,347,602	-	-	6,347,602
39%	471,512	-	-	471,512
48%	1,656,804	-	18,944,202	20,601,006
50%	25,149,132	287,367	-	25,436,499
58%			7,289,489	7,289,489
100%	1,660,234	17,893	12,424	1,690,551
Total	**117,557,722**	**1,051,017**	**26,246,115**	**144,854,854**

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management

The Risk Management Department is responsible for measuring and monitoring liquidity and for the regular preparation of reports, which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid assets position. Liquidity risk management system is in compliance with measures and criteria determined by the Parent Bank, as well as regulations prescribed by the National Bank of Serbia.

Basic activities of the liquidity risk management include:

- planning of cash inflows and outflows;
- implementation and monitoring of liquidity indicators;
- measurement and monitoring of the Bank's liquidity;
- monitoring of liquidity crisis indicators; and
- preparation of the reports for the management.

Liquidity Risk management is done through monitoring following limits/indicators:

- Regulatory liquidity indicators: Liquidity coverage ratio – LCR (including LCR by significant currencies), Liquidity ratio and Narrow liquidity ratio.

Regulatory liquidity indicators

Liquidity Coverage Ratio – LCR

By applying the guidelines of the European Banking Authority (EBA) and Basel III regulations, as well as by respecting the specificities of the Serbian market and the macroeconomic environment, the National Bank of Serbia adopted a new Decision on Liquidity Risk Management by Banks at the end of 2016, introducing Liquidity Coverage Ratio (LCR) as a new regulatory liquidity indicator. The LCR indicator should provide adequate level of highly liquid assets (cash or assets which can be converted into cash with small or without any loss in value) in order to fulfil the Bank's needs for liquidity in the 30-day period of stress scenario.

The Decision on Liquidity Risk Management by Banks prescribed by National Bank of Serbia is almost fully harmonized with Basel III, i.e. the Commission Delegated Act Regulation (EU) 2015/91. However, there are some differences in the local LCR calculation that should be remarked:

- Excess liquidity on obligatory reserve account is calculated as of reporting date instead as average;
- There are no haircuts required for securities issued by the Serbian Government in local and foreign currencies;
- Higher outflow rates are applied only to retail deposits denominated in currencies other than dinar, euro and the currency of an EU member state. Namely, Euro and other EU member state currencies are treated as domestic currency in accordance with the regulation prescribed by the National Bank of Serbia;
- Shortage of required reserves is not treated as outflow; and
- Contractual inflows from exposures that are not past due for more than five days are included into the liquidity inflows (no five days threshold is applied by the EU regulations).

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Regulatory liquidity indicators (continued)

Liquidity Coverage Ratio – LCR (continued)

The LCR indicator required by the regulator was well above the required limit in 2020 with an average value that was more than two times higher than prescribed limit of 1.0 (100%).

LCR	31 December	Average	Maximum	Minimum
2020	2.74	2.75	3.43	2.33
2019	2.39	4.52	7.00	2.39

The Bank also calculates the LCR indicator by significant currencies in accordance with the Decision on Liquidity Risk Management by Banks prescribed by the National Bank of Serbia. LCR indicator is monthly reported to the ALCO board by the most significant currencies (RSD and EUR), as of 31 December 2020 LCR is 8.88 (2019: 6.66) for liquidity position in domestic currency and 0.64 (2019:0.51) for liquidity position in foreign currency (EUR).

Liquidity ratio and Narrow liquidity ratio

In 2020 the regulatory liquidity ratio and narrow regulatory liquidity ratio were significantly above the legally prescribed limit. Average regulatory liquidity ratio and narrow liquidity ratio were two times above the required level (at least 1.0 if calculated as the average of liquidity indicators for all working days within a month, or at least 0.7 if calculated as the average of narrow liquidity indicators for all working days within a month).

Liquidity ratio	31 December	Average	Maximum	Minimum
2020	2.15	2.18	2.44	1.92
2019	2.25	2.22	2.59	1.81

Narrow liquidity ratio	31 December	Average	Maximum	Minimum
2020	1.83	1.79	2.18	1.30
2019	1.64	1.70	2.20	1.30

Structure of the total liquidity reserves as of 31 December 2020 is presented in the following table:

Liquidity reserves	Carrying amount/ Fair value	Haircut	In RSD thousand Available amount
Required Central bank reserves in the amount above the amount required for the period	69,257,465	0%	69,257,465
- *of which required reserves in local currency*	61,987,040	0%	61,987,040
- *of which required reserves in foreign currency*	7,270,425	0%	7,270,425
Reverse repo transaction with Central Bank	-	0%	-
Cash and cash equivalents	20,301,596	0%	20,301,596
Available no-load government securities issued by the Republic of Serbia	84,376,988		54,695,812
- *of which in local currency*	46,575,886	35%	30,274,326
- *of which in Euro*	23,998,764	50%	11,999,382
- *of which in Dollar*	13,802,338	10%	12,422,104
Total liquidity reserves	**173,936,049**		**144,254,873**

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Structure of the total liquidity reserves as of 31 December 2019 is presented in the following table:

In RSD thousand

Liquidity reserves	Carrying amount/ Fair value	Haircut	Available amount
Required Central bank reserves in the amount above the amount required for the period	12,023,089	0%	12,023,089
- *of which required reserves in local currency*	12,023,089	0%	12,023,089
- *of which required reserves in foreign currency*	0	0%	0
Reverse repo transaction with Central Bank	31,261,100	0%	31,261,100
Cash and cash equivalents	15,965,459	0%	15,965,459
Available no-load government securities issued by the Republic of Serbia	108,243,114		58,551,143
- *of which in local currency*	68,886,726	50%	34,443,363
- *of which in Euro*	28,282,425	50%	14,141,213
- *of which in Dollar*	11,073,963	10%	9,966,567
Total liquidity reserves	**167,492,762**		**117,800,791**

The liquidity reserves structure is as follows: reserves required by the central bank above the amount required for the period in domestic and foreign currency on which 0% haircut is applied, reverse repo transactions with the central bank, cash and cash equivalents (including gold) on which 0% haircut is applied, government bonds in domestic and foreign currency issued by the Republic of Serbia on which defined haircut of 10%, 35% or 50% is applied.

As of 31 December 2020, available unencumbered financial assets issued by the Republic of Serbia amounted to RSD 84,376,988 thousand (2019: RSD 108,243,114 thousand), out of which RSD 46,575,886 thousand is in local currency (2019: RSD 68,886,726 thousand), RSD 23,998,764 thousand is in Euro (2019: RSD 28,282,425 thousand) and RSD 13,802,338 thousand is in USD (2019: RSD 11,073,963 thousand).

According to the Liquidity Risk Management Policy, foreign currency account balances are not a part of liquidity reserves, although they represent liquid assets that the Bank owns without restrictions.

As of 31 December 2020, on nostro accounts was RSD 25,942,854thousand (2019: RSD 5,720,666 thousand).

The currency structure of cash on nostro accounts at the reporting date was as follows: EUR – RSD 11,764,067 thousand (2019: RSD 4,481,305 thousand), USD – RSD 288,042 thousand (2019: RSD 694,889 thousand), GBP – RSD 6,623,955 thousand (2019: RSD 87,178thousand), CAD – RSD 731,979 thousand (2019: RSD 90,962 thousand), AUD – RSD 842,595 thousand (2019: RSD 65,757 thousand), DKK – RSD 83,494 thousand (2019: RSD 78,877 thousand), CHF – RSD 4,840,540 thousand (2019: RSD 154,771 thousand), SEK – RSD 363,333 thousand (2019: RSD 41,052 thousand), RUB – RSD 275,181 thousand (2019: RSD 7,356 thousand) and other currencies – RSD 129,668 thousand (2019: RSD 18,519 thousand).

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of 31 December 2020 based on undiscounted cash flow

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
ASSETS								
Cash and balances with Central Bank	142,071,319	142,071,319	142,071,319					
Receivables from derivatives	49,832	49,832						49,832
Securities	90,307,009	96,411,422	520,352	18,406,976	23,426,415	54,057,093		586
Loans and receivables from banks and other financial organizations	53,404,401	53,687,189	42,525,020	1,580,495	5,039,374	4,278,612	241,972	21,716
Loans and receivables from customers	409,138,881	467,410,621	16,820,480	27,556,625	101,579,559	209,055,059	107,339,042	5,059,856
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**696,170,914**	**760,829,855**	**201,937,171**	**47,544,096**	**130,045,348**	**267,390,764**	**107,581,014**	**6,331,462**

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of 31 December 2020 based on undiscounted cash flow **(Continued)**

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Liabilities based on derivatives	2,589	2,589						2,589
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	66,389,398	67,635,926	7,694,808	16,987,549	17,105,624	17,678,332	8,305,279	(135,666)
Deposits and other financial liabilities due to customers	521,155,412	523,278,470	451,779,189	19,310,826	37,417,105	12,428,488	1,715,517	627,345
TOTAL LIABILITIES	**587,547,399**	**590,916,985**	**459,473,997**	**36,298,375**	**54,522,729**	**30,106,820**	**10,020,796**	**494,268**
TOTAL EQUITY		**109,014,630**						**109,014,630**
TOTAL LIABILITIES AND EQUITY		**699,931,615**	**459,473,997**	**36,298,375**	**54,522,729**	**30,106,820**	**10,020,796**	**109,508,898**
OFF-BALANCE SHEET ITEMS			**(257,536,826)**	**11,245,721**	**75,522,619**	**237,283,944**	**97,560,218**	**(103,177,436)**
MATURITY MISMATCH			**(257,536,826)**	**(246,291,105)**	**(170,768,486)**	**66,515,458**	**164,075,676**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2020 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analyzing time series of a vista deposits during previous years.

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of 31 December 2019 based on undiscounted cash flow (Continued):

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
ASSETS								
Cash and balances with Central Bank	97,392,634	97,392,634	97,392,634					
Receivables from derivatives	61,978	61,978						61,978
Securities	108,307,660	117,180,527	1,006,476	11,633,457	33,526,252	71,013,730		612
Loans and receivables from banks and other financial organizations	51,166,557	51,292,176	44,887,673	1,030,475	3,628,474	1,690,829	45,461	9,264
Loans and receivables from customers	373,909,572	427,400,072	24,942,007	28,750,381	95,956,929	180,725,479	95,883,657	1,141,619
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**632,037,873**	**694,526,859**	**168,228,790**	**41,414,313**	**133,111,655**	**253,430,038**	**95,929,118**	**2,412,945**

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of 31 December 2019 based on undiscounted cash flow (Continued):

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Liabilities based on derivatives	7,869	7,869						7869
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	66,347,915	67,558,748	12,484,192	29,933,392	4,592,720	13,191,578	7,473,233	(116,367)
Deposits and other financial liabilities due to customers	472,324,895	475,028,981	378,694,272	33,350,699	46,902,387	13,454,333	1,521,236	1,106,054
TOTAL LIABILITIES	**538,680,679**	**542,595,598**	**391,178,464**	**63,284,091**	**51,495,107**	**26,645,911**	**8,994,469**	**997,556**
TOTAL EQUITY		**100,067,067**						**100,067,067**
TOTAL LIABILITIES AND EQUITY		**642,662,665**	**391,178,464**	**63,284,091**	**51,495,107**	**26,645,911**	**8,994,469**	**101,064,623**
OFF-BALANCE SHEET ITEMS			**(222,949,674)**	**(21,869,778)**	**81,616,548**	**226,784,127**	**86,934,649**	**(98,651,678)**
MATURITY MISMATCH			**(222,949,674)**	**(244,819,452)**	**(163,202,904)**	**63,581,223**	**150,515,874**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2019 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analyzing time series of a vista deposits during previous years.

28. RISK MANAGEMENT (Continued)

28.3. Market risk

In 2020, the Bank acquired Trading Book (positions) and, therefore, was exposed to interest rate risk and price risk which could be caused by the Trading Book. Trading Book refers to portfolio of securities consisted of bonds and derivatives. In accordance with the Trading Book Policy, or the Group Guidelines and a document issued by the Basel Committee on Banking Supervision, the „Fundamental Review of the Trading Book", during 2018 portfolio of derivatives has been transferred from the Banking Book to the Trading Book, as derivatives held by the Bank are not instruments used for hedge accounting. During 2020 there was no registered breach of the limit defining the maximum allowed nominal value of bonds in the Trading Book. On the other hand, the Banking book was exposed to foreign currency risk, with registered limit breaches approved by two members of the Executive Board in 2020.

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

The Bank applies foreign currency risk monitoring system based on the first and the second class limits.

The first class limit is considered to be FX VaR limit, which is calculated and reported on a daily basis. Calculation methodology is regulated by the ISP Group, which applies EWMA historical method, with 99% confidence interval and one day time period. FX VaR is calculated on positions for each currency, due to the Parent Bank's requirements, as well as for the increase of volatility of some currencies, which the Bank has in its portfolio. However, the FX VaR is mostly determined by the volatility of EUR, since the portion of EUR of the total open FX position was 78% in average during 2020.

The second class limit is considered to be the limit of net open FX position, which represents difference between the currency sensitive assets and the currency sensitive liabilities. The second class limits exposure is calculated and reported on a daily basis. During 2020, the first class limit (FX VaR limit) and the second class limit (limit of net open FX position), remained unchanged. During 2020 breaches of the second class limits were registered (in January, February and July), as the result of previously announced and agreed business actions which require that the open foreign currency position is not closed directly, but within few days.

During 2020, the Bank's foreign currency risk indicator was in compliance with the legally prescribed one, which represents 20% of the regulatory equity. As of 31 December 2020 regulatory indicator of foreign currency risk was 1.46%. Considering that the regulatory indicator for foreign exchange risk is below 2%, the Bank has not calculated capital requirement as of 31 December 2020.

28. RISK MANAGEMENT (Continued)

28.3. Market risk (Continued)

The following table presents the open foreign currency position as of 31 December 2020:

In RSD thousand

		Open foreign currency position		
	Carrying amount	**Total**	**Trading book**	**Banking book**
Assets complied with market risks	**699,610,274**	**440,766,950**	**38,599**	**440,728,351**
Cash and balances with Central Bank	142,071,319	58,060,576		58,060,576
Securities	90,307,009	37,875,940	38,599	37,837,341
Loans and receivables from banks and other financial organizations	53,404,401	47,792,821		47,792,821
Loans and receivables from customers	409,138,881	296,672,832		296,672,832
Other assets	4,688,664	364,781		364,781
Liabilities complied with market risks	**606,616,240**	**385,400,487**		**385,400,487**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	66,389,398	123,801,775		123,801,775
Deposits and other financial liabilities due to customers	521,155,412	257,136,237		257,136,237
Other liabilities	19,071,430	4,462,475		4,462,475
Off-balance sheet financial derivatives which impact FX position	(47,626,316)	(47,626,316)	(47,626,316)	
Allowances for impairment	(15,841,335)	(8,649,231)		(8,649,231)
Open net foreign currency position		(909,084)	**(47,587,717)**	**46,678,633**

The following table presents the open foreign currency position as of 31 December 2019:

In RSD thousand

		Open foreign currency position		
	Carrying amount	**Total**	**Trading book**	**Banking book**
Assets complied with market risks	**635,345,174**	**386,333,854**	**59,387**	**386,274,467**
Cash and balances with Central Bank	97,392,634	37,747,780		37,747,780
Securities	108,307,660	39,405,394	59,387	39,346,007
Loans and receivables from banks and other financial organizations	51,166,557	18,171,385		18,171,385
Loans and receivables from customers	373,909,572	290,221,105		290,221,105
Other assets	4,568,751	788,190		788,190
Liabilities complied with market risks	**551,110,476**	**358,416,227**		**358,416,227**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	66,347,915	109,410,243		109,410,243
Deposits and other financial liabilities due to customers	472,324,895	244,565,280		244,565,280
Other liabilities	12,437,666	4,440,704		4,440,704
Off-balance sheet financial derivatives which impact FX position	(19,680,424)	(19,680,424)	(19,680,424)	
Allowances for impairment	(13,345,319)	(7,939,304)		(7,939,304)
Open net foreign currency position		**297,899**	**(19,621,037)**	**19,918,936**

28. RISK MANAGEMENT (Continued)

28.3. Market risk (Continued)

Following table represents the currency structure of open net foreign currency position as of 31 December 2020 and 31 December 2019:

In RSD thousand

Net open foreign currency position	2020	2019
EUR	(1,182,780)	119,620
USD	14,880	32,090
CHF	(308)	8,397
Other currencies	179,915	67,828
Gold and other precious metals	79,210	69,963
Total	**(909,083)**	**297,898**

In EUR

Foreign currency VaR	31 December	Average	Maximum	Minimum
2020	4,751	5,496	16,769	836
2019	4,450	9,027	79,089	891

Following table represents effect of the change in the exchange rates on the Bank's profit and regulatory capital:

In RSD thousand

Scenario	Effect 2020	Effect 2019
10% depreciation of RSD	(90,908)	29,790
20% depreciation of RSD	(181,817)	59,580

28.4. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest-sensitive liabilities.

Interest rate risk is calculated separately for the Banking Book (HTCS -portfolio of securities hold to collect and sell) and for the Trading Book (HFT -portfolio of securities held for trading, consisted of bonds and derivatives), respectively Banking Book (includes everything that is not classified as Trading Book).

ISP Group Methodology on the calculation of interest rate risk was changed at the beginning of 2014 and adopted by the Bank, through internal documents and ERMAS net 5 technical solution. Changes in the methodology included: treatment of the margin as fixed future cash flow; calculation of future cash flows by using FTP prices, instead of the contractual prices; modelling a vista deposits and discounting future cash flows by applying yield curves, modified by the expected loss. Applying the guidelines of the European Bank Authority (EBA) and Basel III regulations, the Parent Bank continuously improves the methodology and Guidelines relating to interest rate risk. In accordance with the EBA guidelines and the Parent Bank guidelines, in 2020 new methodologies were applied in the calculation of interest rate risk. The most important change was introduction the cash flow adjustment approach for expected loss instead of discounting future cash flows by applying yield curves, modified by the expected loss. In addition, new scenarios have been implemented which assess the risk exposure in case of non-parallel shifts of yield curves (steepener, flattener, short rate up and short rate down) on a monthly basis as well as Multicurve Approach that applies a set of different curves for discounting of cash flows. The Bank's documents defining interest rate risk management, the Policy on management of interest rate risk in the Banking Book and the Rulebook - Measurement and control of interest rate risk in the Banking Book, were harmonized with the Parent Bank' documents.

28. RISK MANAGEMENT (Continued)

28.4. Interest rate risk (Continued)

Measures used for assessment of interest rate risk on the Banking Book and on the basis of which there are established limits that are monitored on a monthly level are sensitivity of economic value of assets on 100 basis points interest rate change and sensitivity of income revenues and costs on change of on 50 basis points interest rate change. The Bank was in compliance with the prescribed limits by the Parent Bank in 2020.

Sensitivity of net asset value to change in market interest rates of +/- 100 basis points as well as the new scenarios for non-parallel shifts of yield curves (steepener, flattener, short rate up and short rate down) i.e. sensitivity of interest income and expenses to change of +/- 50, +/- 100 and, + / -200 basis is calculated, monitored and submitted to the ALCO Board as well as to the Parent Bank on a monthly basis. At the quarterly level, the Bank calculates these indicators in accordance with the six defined scenarios required by Basel III regulations and for parallel shifts by +/- 200 basis points,, which are monitored and submitted to the ALCO Board and the Parent Bank.

During 2020 the interest rate risk VaR limit exposure on the Banking Book, was increased while the interest rate VaR limit on the Trading Book has been decreased on the Parent Bank's request .

Interest rate risk is daily monitored and submitted for the financial assets hold to collect and sell (HTCS)as well as for portfolio of securities held for trading (HFT). For (HTCS), as well as for HFT portfolio the following ratios of interest rate risk are calculated and reported on a daily basis: IRR VaR, duration and stress test (change scenario by 100 bps and 200 bps).

Acceptable interest rate risk is limited to the highest possible value at interest rate risk (IRR VaR) for the portfolio of financial assets hold to collect and sell, as well as for the portfolio of securities held for trading.

Value at interest rate risk (IRR VaR) is considered to be the highest possible one day loss in the AFS securities portfolio and securities held for trading that the Bank could undertake under usual market movements in interest rates. IRR VaR calculation methodology is determined by the ISP Group regulations, which applies EWMA historical method with 99% confidence interval and one day time period. During 2020 there was no registered breach of the VaR limits referring to neither HTCS nor HFT portfolio.

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2020:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	142,071,319						142,071,319
Receivables from derivatives						49,832	49,832
Securities	88,406	22,321,683	22,212,085	45,684,248		587	90,307,009
Loans and receivables from banks and other financial organizations	47,671,161	1,121,337	2,854,373	1,568,334	167,469	21,727	53,404,401
Loans and receivables from customers	130,931,213	107,544,183	70,633,122	85,443,107	11,217,081	3,370,175	409,138,881
Investments in subsidiaries						1,199,472	1,199,472
TOTAL ASSETS	**320,762,099**	**130,987,203**	**95,699,580**	**132,695,689**	**11,384,550**	**4,641,793**	**696,170,914**

28. RISK MANAGEMENT (Continued)

28.4. Interest rate risk (Continued)

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2020 (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Liabilities based on derivatives						2,589	2,589
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	7,763,395	31,374,378	14,908,540	7,862,865	4,615,886	(135,666)	66,389,398
Deposits and other financial liabilities due to customers	452,341,137	19,175,526	36,554,574	11,395,330	1,061,500	627,345	521,155,412
TOTAL LIABILITIES	**460,104,532**	**50,549,904**	**51,463,114**	**19,258,195**	**5,677,386**	**494,268**	**587,547,399**
TOTAL EQUITY						**109,014,630**	**109,014,630**
TOTAL LIABILITIES AND EQUITY	**460,104,532**	**50,549,904**	**51,463,114**	**19,258,195**	**5,677,386**	**109,508,898**	**696,562,029**
MATURITY MISMATCH	**(139,342,433)**	**80,437,299**	**44,236,466**	**113,437,494**	**5,707,164**		
CUMULATIVE MATURITY MISMATCH	**(139,342,433)**	**(58,905,134)**	**(14,668,668)**	**98,768,826**	**104,475,990**		

28. RISK MANAGEMENT (Continued)

28.4. Interest rate risk (Continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2019:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	97,392,634						97,392,634
Receivables from derivatives						61,978	61,978
Securities	63,934	10,254,461	31,631,804	66,356,849		612	108,307,660
Loans and receivables from banks and other financial organizations	47,071,580	647,114	2,655,943	781,585	1,071	9,264	51,166,557
Loans and receivables from customers	159,752,861	49,120,501	77,786,381	78,591,787	7,516,423	1,141,619	373,909,572
Investments in subsidiaries						1,199,472	1,199,472
TOTAL ASSETS	**304,281,009**	**60,022,076**	**112,074,128**	**145,730,221**	**7,517,494**	**2,412,945**	**632,037,873**

28. RISK MANAGEMENT (Continued)

28.4. Interest rate risk (Continued)

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2019 (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Liabilities based on derivatives						7,869	7,869
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	12,608,435	33,446,419	5,858,588	8,876,779	5,674,061	(116,367)	66,347,915
Deposits and other financial liabilities due to customers	379,793,807	32,662,769	45,791,767	12,099,906	870,592	1,106,054	472,324,895
TOTAL LIABILITIES	**392,402,242**	**66,109,188**	**51,650,355**	**20,976,685**	**6,544,653**	**997,556**	**538,680,679**
TOTAL EQUITY						**100,067,067**	**100,067,067**
TOTAL LIABILITIES AND EQUITY	**392,402,242**	**66,109,188**	**51,650,355**	**20,976,685**	**6,544,653**	**101,064,623**	**638,747,746**
MATURITY MISMATCH	**(88,121,233)**	**(6,087,112)**	**60,423,773**	**124,753,536**	**972,841**		
CUMULATIVE MATURITY MISMATCH	**(88,121,233)**	**(94,208,345)**	**(33,784,572)**	**90,968,964**	**91,941,805**		

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The table below presents the effects of change in interest rates on the Bank's net income and net assets, valued by applying the standard scenario and not taking into account assumptions on asymmetrical changes of the yield curve. The standard scenario implies parallel movement of the yield curve by 100bps and 200 bps on the Bank's net asset sensitivity and 50bps on net income sensitivity.

In RSD thousand

Sensitivity of the Bank's net assets on the change in interest rates	Increase by 100bps	Decrease by 100bps	Increase by 200bps	Decrease by 200bp
2020				
As of 31 December	(1,041,999)	1,500,731	(2,535,029)	2,538,557
Period average	(1,103,678)	1,507,733	(2,208,716)	3,286,260
Period maximum	(633,751)	1,774,411	(1,226,260)	3,817,212
Period minimum	(1,370,546)	1,235,674	(2,662,405)	2,538,557
2019				
As of 31 December	(749,722)	1,026,448	(1,451,784)	2,511,829
Period average	(909,360)	1,172,009	(1,758,945)	2,601,527
Period maximum	(1,063,661)	1,453,890	(2,056,469)	3,109,783
Period minimum	(441,761)	456,288	(839,203)	911,296

In RSD thousand

Sensitivity of the Bank's net income on the change in interest rates	Increase by 50bps	Decrease by 50bp
2020		
As of 31 December	760,209	(869,345)
Period average	767,957	(861,215)
Period maximum	918,290	(705,070)
Period minimum	622,792	(1,015,890)
2019		
As of 31 December	722,879	(788,679)
Period average	662,855	(707,822)
Period maximum	722,879	(795,584)
Period minimum	563,401	(607,500)

The following table represents value at risk for portfolio of *financial assets hold to collect and sell (HTCS)*:

In EUR

IRR AFS VaR	31 December	Average	Maximum	Minimum
2020	328,553	528,769	884,285	320,545
2019	228,281	307,238	418,440	228,281

The following table represents value at risk for *financial assets held for trading* portfolio:

In EUR

IRR HFT VaR	31 December	Average	Maximum	Minimum
2020	8,116	15,236	38,882	2,843
2019	6,832	11,302	46,456	4,093

28. RISK MANAGEMENT (Continued)

28.5. Operational risk

Operational risk is the risk of possible adverse effects on financial result and capital of the Bank caused by omissions (unintentional and intentional) in the employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events. Operational risk shall also include legal risk.

The Bank's goal is to manage operational risk, in order to achieve balance between preventing financial loss and damage to the Bank's reputation, on one side, and economic profitability and innovation, on the other. The Bank's policy requires respecting all currently valid regulations.

The Bank has developed and implemented specific standards of operational risk management in the following areas:

- Operational risk identification, which comprises:
  - Collecting data on operational risks and losses – identification, registration and classification of data on the Bank's losses,
  - Integrated process of assessment of the Bank's exposure to operational risk;
  - Assessment of operational risk when implementing new product, process or system;
- Operational risk measuring;
- Monitoring and reporting on operational risk; and
- Mitigating operational risk.

At least once a year, Bank's Internal Audit performs independent assessment of adequacy of the operational risk management system. The results of this assessment are disclosed within the Audit Report, which includes all the findings and improvement suggestions.

For the purposes of capital requirements for operational risk calculation, the Bank applies the standardized approach. The capital requirement for operational risk, calculated by applying the standardized approach, amounts to RSD 4,326,720 thousand as of 31 December 2020 (31 December 2019: RSD 4,344,143 thousand).

28.6. Exposure risk

The Risk Management Department monitors, measures and reports to the competent boards of the Bank on the Bank's exposure to a single client or to a group of related clients, risk of investment in other legal entities and in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2019, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia as well as the investment limits prescribed by the Bank.

Exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk Management Policy, the Bank's management sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees seek to ensure the compliance of the Bank's exposures with prescribed limits, i.e. exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures does not exceed 400% of the Bank's equity.

28.7. Investment risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National Bank of Serbia's regulations, the Risk Management Department monitors the Bank's investments and reports to the Executive Board. The Department also ensures that the Bank's investment in a single non-financial entity does not exceed 10% of the Bank's equity, and that the total investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank's equity.

28. RISK MANAGEMENT (Continued)

28.8. Country risk

Country risk relates to the country of origin of the Bank's client and includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economic or social conditions in the client's country of origin. The Bank's exposure to country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

28.9. Capital management

The objective of the Bank's capital management is to maintain the Bank's ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital and securing dividends for shareholders.

The Bank permanently manages its capital in order to:
- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern;
- Maintain capital at the level that will ensure future development of the business; and
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank's capital, is monitored on a monthly basis by the Bank's management. The Bank is obliged to calculate the following ratios and at any moment keeps them at levels that are not lower than prescribed:
- ratio of the adequacy of the basic share capital of the bank, which represents the percentage ratio of the basic share capital and risky assets of the bank - 4.5%;
- an indicator of the basic capital adequacy of the bank, which represents a percentage ratio of the basic capital and risky assets of the bank - 6%;
- Indicator of the adequacy of (total) capital of the bank, which represents the percentage ratio of capital and risky assets of the bank - 8%.

28. RISK MANAGEMENT (Continued)

28.9. Capital management (Continued)

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2020:

	In RSD thousand
ITEM	**31 December 2020**
CAPITAL	**81,399,241**
Core capital	**81,399,241**
Common Equity Tier 1 capital	**81,399,241**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41,748,469**
Paid amount of Common Equity Tier 1 capital instruments	21,315,900
Relevant issue premium with Common Equity Tier 1 capital instruments	20,432,569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	*12,368,722*
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	*9,481,557*
Revaluation reserves and other unrealized gains/losses	**1,926,979**
Revaluation reserves and other unrealized gains/losses	1,931,410
(-) Unrealized losses	(4,431)
Reserves from profit, other reserves and reserves for general banking risks	**43,488,903**
Other reserves	43,488,903
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	**(84,424)**
(-) Additional value adjustments	(84,424)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(5,385,746)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(5,385,746)
(-) Any tax charge relating to Common Equity Tier 1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 elements	**(145,613)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans 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.	**(107,184)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(42,143)**

28. RISK MANAGEMENT (Continued)

28.9. Capital management (Continued)

In RSD thousand

ITEM	31 December 2019
CAPITAL	**81,696,226**
Core capital	**81,696,226**
Common Equity Tier 1 capital	**81,696,226**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41,748,469**
Paid amount of Common Equity Tier 1 capital instruments	21,315,900
Relevant issue premium with Common Equity Tier 1 capital instruments	20,432,569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	2,292
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	12,331,751
Revaluation reserves and other unrealized gains/losses	**2,497,944**
Revaluation reserves and other unrealized gains/losses	2,500,989
(-) Unrealized losses	(3,045)
Reserves from profit, other reserves and reserves for general banking risks	**43,488,903**
Other reserves	43,488,903
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	**(108,297)**
(-) Additional value adjustments	(108,297)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(5,348,965)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(5,348,965)
(-) Any tax charge relating to Common Equity Tier 1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 elements	**(284,437)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans 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.	**(250,665)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(46,725)**

28.10. Fair value of financial assets and liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities, for which official market information is available and when their fair value significantly differs from their carrying amounts.

Determining fair value of the financial instruments, which are not carried at amortized cost must follow the principles, criteria and hierarchy prescribed by the Fair value policy, which is in accordance with ISP Group's requirements for determining fair value. Determining fair value of the financial instruments not carried at amortized cost respects the following hierarchy, which reflects credibility of the inputs used in determination of fair value:

- Level 1: inputs are the quoted market prices (without corrections) on active markets;
- Level 2: inputs other than quoted prices from level 1, but directly or indirectly (derived from prices) quoted on market. This category includes: market interest rates, CDS (credit default swap) market quotations, market prices of primary bonds issue or market exchange rates when determining value of the instrument.
- Level 3: inputs that are not information available on the market. This category includes each instrument, for which information on value is not directly or indirectly available on the market.

Implementation of the hierarchy is not optional, and the Bank cannot choose the information for determining fair value of financial instruments that are not carried at amortized cost, but it must respect the abovementioned hierarchy.

Financial instruments not carried at amortized cost and on which Fair Value Policy is applied are:

- Securities (government FX bonds, government bonds issued by foreign governments etc. for which active and liquid market exists, which provides direct information about quoted market prices (Level 1);
- The Republic of Serbia treasury bonds, which are valued by discounting future cash flows by applying market non-risk yield curves, adjusted for country risk (at euro bonds) and liquidity risk (at RSD bonds, without direct quotation of maturity) (Level 2);
- Over-the-counter financial derivatives (FX swap and FX forward) which are valued by discounting future cash flows with market non-risk yield curves adjusted for country risk and (at Euro bonds) and liquidity risk (at RSD bonds without direct quotation of maturity) (Level 2);
- Shares and investments in legal entities, which are not sold on active markets and for which there is no reliable value, are carried at cost or last available information about value, reduced by impairment (Level 3)

During 2020 there were no transition between levels during the year.

28. RISK MANAGEMENT (Continued)

28.10. Fair value of financial assets and liabilities (Continued)

The following tables present value of financial instruments based on different information and in accordance with hierarchy within the Fair Value Policy:

Fair value as of 31 December 2020:
In RSD thousand

	Level 1	Level 2	Level 3	Total
Assets				
Securities	13,877,177	70,574,650	14,154	84,465,981
Receivables from derivatives	-	49,832	-	49,832
Total	13,877,177	70,624,482	14,154	84,515,813
Liabilities				
Liabilities based on derivatives	-	2,589	-	2,589
Total	-	2,589	-	2,589

Fair value measurement for securities position is divided into three levels. Level 1 instruments refer to bonds issued by Republic of Serbia denominated in USD currency for which there is an active market that provides direct information on quoted market prices and equities quoted on international market. Level 2 instruments refer to bonds issued by Republic of Serbia and financial derivatives which are valued by using discounting techniques on future contracted cash flows, applying market risk-free yields. Level 3 instruments refer to shares or equity held in legal entities that are not listed on the active market.

Fair value as of 31 December 2019:

In RSD thousand

	Level 1	Level 2	Level 3	Total
Assets				
Securities	11,122,970	97,169,151	15,539	108,307,660
Receivables from derivatives	-	61,978	-	61,978
Total	**11,122,970**	**97,231,129**	**15,539**	**108,369,638**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	-	7,869	-	7,869
Total	**-**	**7,869**	**-**	**7,869**

The Bank’s management considers that the carrying amounts stated in the accompanying financial statements are the most valid and useful reporting values under the present market conditions.

28. RISK MANAGEMENT (Continued)

28.10. Fair value of financial assets and liabilities (Continued)

The following table represents fair value of instruments not carried at fair value and classified by the appropriate levels of hierarchy:

In RSD thousand

31 December 2020	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with Central Bank		142,071,319		142,071,319	142,071,319
Securities			6,668,000	6,668,000	5,841,028
Loans and receivables from banks and other financial organizations		53,405,319		53,405,319	53,404,401
Loans and receivables from customers		168,288,169	268,017,534	436,305,703	409,138,881
Total		**363,764,807**	**274,685,534**	**638,450,341**	**610,455,629**
Liabilities					
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank		42,577,833	25,787,736	68,365,569	66,389,398
Deposits and other financial liabilities due to customers		458,807,995	69,192,030	528,000,025	521,155,412
Total		**501,385,828**	**94,979,766**	**596,365,594**	**587,544,810**

Fair valued Cash and balances with Central Bank are belonging to the Level 2 and are presented at their carrying amount.

Loans and receivables from banks and other financial organizations, deposits and other financial liabilities due to banks, other financial organizations and Central Bank are presented at their fair value calculated as discounting cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Given the short-term deposits with financial institutions (money market), i.e. transactions with highly rated financial institutions which are contracted at interest rates corresponding to the market, these positions belong to the Level 2.

Fair value for positions Loans and receivables from customers and Deposits and other financial liabilities due to customers are calculated as discounting techniques of future cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Doubtful loans are valued in the same manner as performing loans, while maturity estimated by the NPL Department is assigned to the total net exposure instead of initially contracted maturity. These positions belong to the Level 2 (up to one-year maturity) respectively Level 3 (if the maturity is over one year).

For the purposes of determining fair values, risk-free yield curves that correspond to the currency and maturity structure of the contracted cash flow are used. For maturities for which there are no market quotes of the BELIBOR yield curve, the yield equals the quoted value of the six-month BELIBOR, increased by the corresponding spread. Spread for a certain maturity is defined as the difference between the executed bond rate with same maturity in the primary market and the value of the six-month BELIBOR on the day of issue of the relevant bond. The European yield curve represents the EUR-STANDARD yield curve that is defined by the money market (for a maturity of up to one year) and the interest rate swap curve which is increased for the country's risk spread (for a maturity more than one year), where the country's risk spread is defined as the difference between issued Serbian and US risk-free bonds.

28. RISK MANAGEMENT (Continued)

28.10. Fair value of financial assets and liabilities (Continued)

In RSD thousand

31 December 2019	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with central bank		97,392,634		97,392,634	97,392,634
Loans and receivables from banks and other financial organizations		51,906,598		51,906,598	51,166,557
Loans and receivables from customers		171,836,155	233,082,276	404,918,431	373,909,572
Total		**321,135,387**	**233,082,276**	**554,217,663**	**522,468,763**
Liabilities					
Deposits and other liabilities due to banks, other financial organizations and central bank		41,329,120	21,091,400	62,420,520	66,347,915
Deposits and other liabilities due to customers		412,425,122	69,959,945	482,385,067	472,324,895
Other liabilities					
Total		**453,754,242**	**91,051,345**	**544,805,587**	**538,672,810**

The Bank's management assesses the risk, and in instances in which it estimates that the carrying amount of assets may not be realized, it recognizes a provision.

29. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2020, the Bank is a defendant in a certain number of legal proceedings. Total estimated value of damage claims amounts to RSD 8,107,466 thousand (31 December 2019: RSD 6,384,799 thousand), including penalty interests and fees.

As disclosed in Note 23, as of 31 December 2019 the Bank recognized the provision for potential losses that could arise from the aforementioned litigations in the total amount of RSD 627,526 thousand (31 December 2019: RSD 265,215 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The amount of the highest single litigation claims of RSD 5,491,509 thousand, for which the Bank did not recorded provision, is claimed by a physical person, who is the owner of the Bank's corporate debtor and guarantor for the loan granted to that corporate debtor. The Bank did not recognize provision for this litigation and according to the Bank's management opinion, claimant presented in ungrounded and arbitrarily manner, the facts based on which he claims not precise requirements for compensation damage, and it is expected that the Court will completely reject the claim. Nevertheless, the Bank will monitor change in circumstances at the end of each reporting period. The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been impaired and charged to the results of the current and previous years.

(b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued and could assess additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are presented fairly.

30. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 22 of the Law on Accounting, the Bank performed the process of reconciliation of outstanding liabilities and receivables with its debtors and creditors as of 30 November 2020, and it maintains credible documentation on the circularization process.

Of 4,374 open items (IOS forms), which include the value of receivables of RSD 666,078,085,558, denied 28.

The balance of unreconciled outstanding receivables in amount of RSD 370.643 thousand presented 0.05% of total receivables of open items (IOS).

The largest amount of unmatched receivables, 61.34% relate to receivables from legal entities in bankruptcy.

31. EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia, determined at the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies, as of 31 December 2020 and 2019 into the functional currency (RSD), for the major foreign currencies were as follows:

In RSD

	2020	**2019**
EUR	117.5802	117.5928
USD	95.6637	104.9186
CHF	108.4388	108.4004
GBP	130.3984	137.5998
CAD	75.0831	80.4108
AUD	73.6810	73.5185
DKK	15.7985	15.7359
SEK	11.6538	11.2183
RUB	1.2751	1.6919

32. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2020.

Belgrade, 17 February 2021

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Đurić President of the Executive Board

BANCA INTESA BEOGRAD

ANNUAL REPORT 2020

Content

1. Key Financial Indicators

Income Statement

RSD thousands

	2020	2019
Net interest income	**20,796,217**	20,388,188
Net fee and commission income	**7,500,029**	7,691,852
Profit before tax	**10,833,517**	13,938,435
Income tax	**(1,257,729)**	(1,587,375)
Net profit from deferred tax assets and liabilities	**(94,231)**	(21,601)
Profit after tax	**9,481,557**	12,329,459

Balance Sheet

	2020	2019
Cash and balances with Central Bank	**142,071,319**	97,392,634
Non-current assets held for sale and discontinued operations	**22,741**	38,301
Securities and receivables from derivatives	**90,356,841**	108,369,638
Loans and receivables from banks, other financial organisations and customers	**462,543,282**	425,076,129
Investments in subsidiaries	**1,199,472**	1,199,472
Intangible assets, property, plants and equipment and investment property	**15,515,686**	15,302,768
Other assets, current and deferred tax assets	**5,476,313**	5,251,950
Total assets	**717,185,654**	**652,630,892**
Financial liabilities based on derivatives	**2,589**	7,869
Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers	**587,544,810**	538,672,810
Provisions	**1,383,450**	861,164
Other liabilities and deferred tax liabilities	**19,240,175**	13,021,982
Total liabilities	**608,171,024**	**552,563,825**
Equity	**109,014,630**	**100,067,067**
Total liabilities and equity	**717,185,654**	**652,630,892**

Indicators

	2020	2019
Profit before tax/ Total assets	1.51%	2.14%
Profit before tax / Total equity	9.94%	13.93%
Interest income / Total assets	3.18%	3.49%
Interest expenses / Total liabilities	0.32%	0.35%
Capital adequacy ratio	19.85%	21.23%
Total assets per employee	234,298	212,376
Number of employees	3,061	3,073

2. Letter from the Chairman of the Board of Directors

Ladies and gentlemen,

The outgoing year is certainly one of the most difficult for each one of us, not just professionally, but in every other respect as well. Last year, it seemed to us that the slowdown of economic activity and goods trade due to rising protectionism and geopolitical turmoil globally would be a major challenge, but looking back through the prism of the events in 2020, it truly appears this was insignificant worry. The COVID-19 pandemic which marked 2020 caused visible economic problems, disrupted global supply chains, shut down a large number of sectors, especially services, and according to IMF estimates, pushed into recession more than 160 countries worldwide.

The governments of a majority of countries responded to the crisis with massive support packages for businesses and individuals in order to mitigate the economic consequences of the pandemic, which resulted in budget deficits reaching all-time highs in numerous countries. The extensive fiscal policies were also accompanied by extensive monetary policy as central banks around the world injected into financial systems thousands of billions of euros and dollars of fresh money, maintaining interest rates below zero, in an effort to mitigate the economic slowdown with cheap money, prevent major job losses and pave the way for an accelerated recovery after the pandemic.

In such an overall environment, in a situation in which, according to IMF estimates, the most developed countries in the European Union will experience a drop in gross domestic product of over six percent, and Italy and Spain a drop of even more than 10 percent, Serbia will end the year with a 1 percent (Ministry of Finance estimate) to 1.5 percent drop (latest IMF estimate). In a different context, every GDP decrease would be a cause for concern, but under the circumstances of the new reality, one must not lose sight of the fact that according to IMF estimates, no country in Europe will experience a smaller drop than Serbia. Several factors helped contain the drop in GDP in Serbia. First of all, a massive support package for businesses, which the Government of Serbia adopted shortly after the pandemic was declared. In addition to those measures, as has been the case for several years, GDP was positively impacted by personal consumption growth, larger budget allocations to public investment and a continuous significant inflow of foreign direct investment, since, in spite of the pandemic, according to National Bank of Serbia (NBS) estimates, about 2.9 billion euros of foreign direct investment will flow into Serbia this year. Owing to fiscal consolidation measures in the previous period, despite significant budget support for businesses and individuals, according to Ministry of Finance data, public debt did not exceed 57 percent of GDP at the end of October, so the country's public finances are not at risk, and low and stable inflation enabled the NBS to ease monetary policy additionally.

In December, the key policy rate was cut for the fourth time since the start of the pandemic, to an all-time low of just one percent, which could have a positive effect on economic recovery in the coming year.

After two years as Chairman of the Board of Directors, I can proudly state that, with constant technological improvements, we have succeeded in maintaining the growth trend and that Banca Intesa continues to be the number one bank in Serbia by all key performance indicators – in terms of market share in total assets and total loans of above 15.0%, in terms of share in total capital of 15.0% and above 16.0% in total customer deposits, at the end of the third quarter. This year, in which the NBS introduced loan moratorium for businesses and individuals multiple times, Banca Intesa reported growth in lending, thus helping in reducing the economic slowdown to a much lower level than in other countries, on the one hand, and also improving citizens' quality of life even in these times of crisis, on the other.

The confidence our clients have placed in us is well founded, because we are closing the year with high liquidity and capital positions, which is best demonstrated by the loan-to-deposit ratio of 80.4% and capital adequacy ratio of 19.9% at the end of the third quarter, while reducing the NPL level to 2.4% by the end of November. Banca Intesa's net profit before tax reached 7.8 billion dinars at the end of the third quarter.

This success was achieved owing to all our employees and managers led by the President of the Executive Board, and I would like to use this opportunity to thank everyone for their responsible, devoted and dedicated work. With a such team and continuous support of the Parent Group, I am confident that in the coming period Banca Intesa will remain the number one bank in the Serbian banking market, which is facing rising competition year after year.

Sincerely,

Ignacio Jaquotot

Chairman of the Board of Directors

3. Foreword by the President of the Executive Board

Ladies and gentlemen,

Behind us is a year in which we fundamentally changed the way we live and work — our personal and professional plans — making health our main priority. In 2020, which will be remembered for the coronavirus pandemic, restriction of movement, and physical distancing, we managed to adapt our business processes to the country's state of emergency in record time and to leverage available capacities, ensuring business continuity and accessibility to customers. By doing so, we have once again demonstrated our strength and stability, continuing to take all required steps every day with a view to maximising our own and our customers' safety to the extent permitted by circumstances on the market. We have managed — even in such a challenging environment — to completely change the way we work by migrating most of our activities to a digital platform, to achieve good performance, and to maintain market leadership.

According to World Bank estimates, the global economy in 2020, affected by the pandemic's effects, saw a 4.3% negative growth of gross domestic product, while Serbia is expected to see a GDP downswing of only 1.1%, owing to the country's economic structure. In addition, the Serbian Government's package of measures — including a guarantee scheme intended for entrepreneurs and micro, small, and medium-sized enterprises, as segments of the economy most vulnerable to the crisis — represents one of the ways to preserve the economic system's overall stability. As the country's largest bank and lender, Banca Intesa has been actively involved in the state-guaranteed lending programme, granting more than 234 million euros so far and in turn contributing to improved liquidity of many companies.

In addition to the Government's measures, the National Bank of Serbia (NBS) dropped the benchmark interest rate four times since the pandemic started, hitting its all-time low of 1% in December. In order to mitigate the pandemic's consequences and in line with the National Bank of Serbia's decision, we made three offers to our customers to help them pay off their loans, which were extremely important not only for them but also for the national economy's overall stability.

The Serbian banking sector met the coronavirus pandemic on stable footing through high liquidity, good capitalisation, and significant asset quality, best evidenced by the fact that during the third quarter, according to the latest NBS data, growth in loans was the highest in the region compared with the same period in 2019. At the end of the third quarter of 2020, the banking sector's total loans were 13.3 percent higher than in September 2019.

We are starting the new year with 1.36 million customers, as a trusted market leader by all key indicators — total assets, capital, loans, and deposits.

Despite the challenges in 2020, Banca Intesa continued the trend of good results owing to the overall growth of the retail loan portfolio by 12.4% as of November 2020, as well as the growth of housing loans by nearly 18% and cash loans by more than 8% compared with the same period in 2019. As for working with businesses, Banca Intesa retained its leading position, showing an annual growth of the loan portfolio by close to 5%, while at the same time lowering the level of non-performing loans to an all-time low of 2.5%.

As the dominant financial institution on the market and a loyal member of the community aware of the seriousness of the situation, we donated ten million dinars to the National Health Insurance Fund to boost the healthcare system's capacity, showing the highest degree of solidarity and compassion in order to overcome the difficult situation facing all of us. Furthermore, in partnership with the EBRD, we approved a credit line of 20 million euros, in order to be able to support companies in prevailing over the negative effects that the pandemic has left on their businesses.

I am extremely honoured that the prestigious financial magazine The Banker recognised us as the best bank in Serbia for the ninth time, acknowledging not only our results in the past year, but also the commitment to improving our business model, mainly through digitalisation of processes and services, in order to respond adequately to the growing demands of all customer segments and maintain a high level of their satisfaction. I am especially pleased with the fact that this year, leading international financial magazines Euromoney and Global Finance voted us the best bank in Serbia. Bearing in mind the results in perhaps the most challenging year of the modern age, on behalf of Banca Intesa's Executive Board, I would like to thank all employees for their exceptional dedication and responsibility, as well as their teamwork and mutual support in a business environment changed by the pandemic.

I especially want to thank our shareholders and members of the Board of Directors, who even in these trying times encouraged us to continue creating a strong, modern, and efficient bank and remain our customers' first choice, providing them with support and staying at the helm of the Serbian banking sector.

Best regards,

Đurić

Draginja Đurić,

President of the Executive Board

4. Macroeconomic Environment and the Banking Sector

- *Sudden COVID-19 shock and the restrictive measures to contain the virus caused severe economic disruptions, pushing the economy into recession*
- *Comprehensive response of the authorities to the crisis helped cushion the blow to the real sector, temporarily lifting the fiscal gap to a record-high level*
- *Well-guarded by extensive NBS interventions, the dinar's value remained practically fixed, in spite of COVID-19 disturbance weighing on capital and trade flows*

The year 2020 was marked by the unprecedented level of uncertainty engendered by the novel coronavirus pandemic outbreak. The dynamic spread of the virus globally caused wide, negative consequences for societies and national economies, posing formidable challenges to policymakers, while the global GDP exhibited the biggest contraction since World War II.

Macroeconomic developments in Serbia have been strongly influenced by the pandemic. Following its outbreak in March, GDP in the second quarter recorded the strongest fall in two decades, as containment measures undertaken to confront COVID-19 weighed on external and domestic demand, simultaneously disrupting supply chains. Although the economy started recovering faster than expected after the relaxation of restrictions in May, benefitting also from extensive fiscal and monetary support, the second half of the year saw another contraction, albeit much smaller than in 2Q. Soaring infections and tightened restrictions to contain the virus at year's tail end weighed on economic activity, resulting in an recession for the whole 2020.

While the GDP contraction was softer than in most other European countries, it was primarily a result of less developed domestic economy and its structure, relying more on the production of essential products, whose demand has not fallen significantly during the crisis. A larger decline in GDP was also prevented by an adequate fiscal and monetary policy response, implemented in line with good international practice. Owing to the sound macroeconomic performance and improved fiscal metrics in the years immediately preceding the crisis, the support package adopted by the Government was among the most generous, focusing primarily on mitigating corporates' liquidity issues and protecting jobs. The payout of minimum wages and tax deferrals were well received among companies, while debt-moratorium was accepted by around 90% of the banks' clients. Other measures to preserve private sector liquidity included loans at preferential rates and guarantee schemes focused on SMEs.

In order to mitigate the negative effects of the crisis, the NBS cut the key policy rate four times since March, bringing it to a historic low of 1.0% in December. Continued monetary easing was conducive to a further fall in interest rates in the interbank money market, and for the first time ever, dinar lending rates fell below interest rates on euro-indexed loans. Credit activity recorded hefty growth supported by expansionary monetary policy, the effects of the moratorium and disbursement of loans under the guarantee scheme. The NBS has provided additional dinar liquidity to the market through REPO auctions and bilateral purchases of government bonds, as well as FX liquidity through swap auctions.

In spite of fiscal and monetary policy expansion, disinflationary effects coming from a drop in oil price and weak domestic and external demand were strong enough to keep consumer prices contained within the lower part of the inflation corridor. Closely steered by NBS interventions, the dinar was among the most stable currencies globally.

Wage growth largely continued, primarily driven by an increase in public sector wages. In the second quarter, unemployment rate hit a record low of 7.3% and increased to 9% in the third quarter, mainly on the account of lower inactivity of working-age population rather than a decline in employment. The pandemic's impact on the labour market is likely to manifest with a time lag, given that the wage subsidy programme has prevented massive job losses so far.

The implementation of fiscal measures, together with the decline in revenues amid lower economic activity, resulted in a record-high fiscal gap in 2020, expected to reach 8.8% of GDP, according to the Law on Budget Revision from November. This led to a temporary increase in public debt levels to nearly 60% of GDP. Following strong activity on the local debt market early in the year and May's EUR 2 billion international T-bills launch to cover increased financing needs, Serbia tapped into international markets again in late November, successfully launching a 10Y USD bond worth 1.2bln. For the first time ever, the hedging via swap operations was carried out, while the bulk of funds was used to early repay the part of costly outstanding debt referring to dollar Eurobonds issued in 2011.

Due to a higher resilience to the coronavirus shock relative to its peers, preserved financial stability and the expectations that public finances will gradually return to the equilibrium path as of 2021, credit agencies Standard & Poor's and Fitch refrained from downgrading the country's rating, keeping it just one notch below investment grade.

Official talks with the IMF on the final review under the Policy Coordination Instrument were successfully completed in October. Although the programme implementation has remained broadly on track, the IMF underlined the necessity to maintain fiscal responsibility and accelerate the implementation of structural reforms after some delays amid the pandemic in order to secure strong and stable growth in the medium term. In the EU accession process, however, the country lacked results that could prove its advancing status since no new chapters were opened during 2020.

In 2021, the economy is expected to recover to the pre-crisis level, led by a domestic demand recovery, wherein fiscal and monetary policy support will play an important role. However, the outlook remains clouded by persistent uncertainty over the pandemic and developments on the vaccination front.

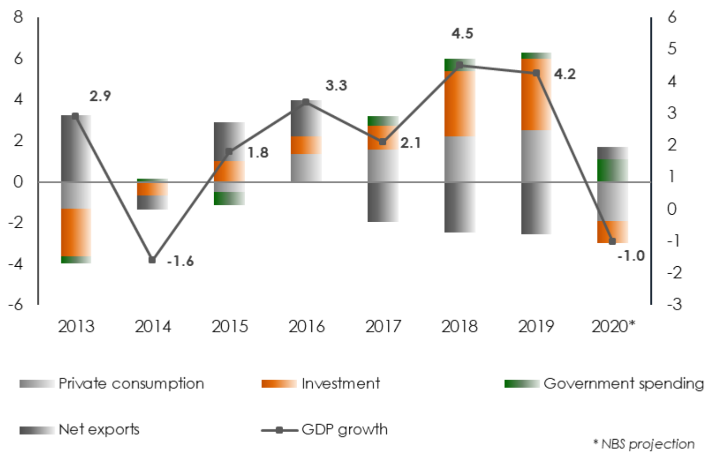
Macroeconomic environment

Economic activity

Following strong start in 2020, economic activity fell by 6.3% in the second quarter due to the blow from the COVID-19 pandemic. It was the sharpest quarterly contraction recorded in over two decades. In the third quarter, GDP rebounded at a faster pace than initially expected, slowing to -1.4% y-o-y, meaning that the economy shrank some 0.8% y-o-y on average over the first 3 quarters.

On the production side, the industrial sector and excellent agriculture season helped the economy to recuperate in the third quarter, while services and construction provided negative contributions, partly on account of the high base from last year when it comes to the construction activity. Looking at the expenditure side aggregates, the less dramatic fall in economic activity during the third quarter is owed to a quicker-than-expected recovery of investments and pickup in both domestic and foreign demand due to the eased virus containment measures and improved consumer sentiment. Strong monetary and fiscal stimulus supported the recovery, thus positively reflecting on the labour market movements.

Graph 1 – Contribution to the annual GDP growth rate (in %)



Source: NBS

Turning to the final quarter, the rapid increase in infections, both locally and in Serbia's main economic partners, and tightening of restrictions to contain the virus are likely to lead to a deeper downturn, although not of the magnitude that was registered in the second quarter. The last year's high base (a consequence of the construction of the Serbian leg of the TurkStream gas pipeline) will additionally play into this. Overall, full-year GDP figure is projected to land at -1.0%, according to the NBS, while the IMF believes that economic output decline will be at -1.5%.

In the next year, the Serbian economy is expected to rebound to the pre-crisis level and likely, to exceed it, whereby the private consumption and investments are seen as primary sources of the growth. The risks to the projection for 2021 are associated primarily with the course of the pandemic and the related pace of global economic recovery, notably in the euro area and the domestic economy.

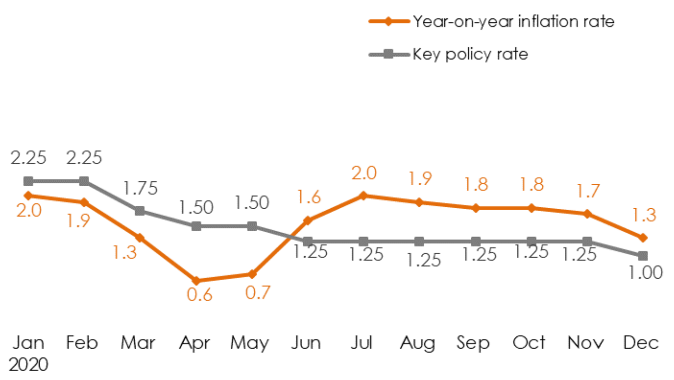
Inflation

Inflationary pressures remained low throughout 2020. Before the outbreak of the crisis, y-o-y inflation moved around 2.0%. After dropping below the lower bound of the target tolerance band in March (3.0%±1.5 pp), it continued slowing down in April and May, predominantly determined by the base effect of vegetable prices and significantly reduced prices of petroleum products. In June, the headline figure returned to the NBS inflation target, driven by pickup in tobacco and food prices, notably increase in fruit prices, caused by unfavourable weather conditions that damaged yields of many fruits in most of Europe.

Although slightly accelerated, consumer prices remained contained in the third quarter. After hitting 2.0% in July, the seven-year average, y-o-y inflation stabilised around 1.8% in the third quarter, before slowing down in the final quarter of the year to hit 1.3% in December. In relation to 2019, consumer prices in 2020 increased by 1.6%, on average.

Core inflation moved between 1.5% and 2.0% in the greater part of the year, suggesting there is no significant strengthening of the inflationary pressures, as confirmed by short-term inflation expectations of the financial and corporate sectors that continued to move well below the target midpoint.

Graph 2 – Year-on-year inflation dynamics and key policy rate trends (in %)



Source: NBS

Based on NBS projections, CPI is expected to stay inside the lower part of the inflation target range (3%±1.5 pp) until end-2021 on account of low aggregate demand and subdued international inflation, while disinflationary effects from the past oil prices drop should gradually disappear. Uncertainties surrounding the inflation projection in the short run mostly stem from movements in prices of the most volatile inflation components, namely fruits and vegetables, which will continue to determine the inflation profile, in addition to petroleum products.

Monetary policy

Faced with first signals of the new crisis, the National Bank of Serbia has shown it stands ready to respond to the negative effects of the pandemic on the local economy. At its extraordinary meeting held on March 11, 2020, the same day the World Health Organisation declared a global pandemic caused by the new virus, the NBS decided to trim the key policy rate by 50 bps, to 1.75%. At the same time, the corridor of the main interest rates was narrowed from ±1.25 pp to ±1 pp relative to the key policy rate. The key policy rate was again cut by 25 bps in April and June, in order to sustain the fall in interbank money market interest rates and dinar lending rates and to contribute to a faster recovery of the overall economic activity by encouraging credit growth.

Central bank undertook several additional measures to support the real sector. It provided ample dinar and FX liquidity to banks through direct repo operations, swap auctions and bilateral purchases of dinar government securities from banks. A three-month-moratorium on the repayment of loan and financial lease debt for all debtors was introduced immediately, with an additional 60-day extension in August, easing the burden of the crisis for businesses and households.

In July, the NBS set up a precautionary repo line with the ECB, for the provision of additional euro liquidity to the domestic financial system, in case of need. More favourable dinar financing conditions have been secured within the government guarantee scheme for micro, small and medium-sized enterprises and entrepreneurs, which helped increase the degree of dinarisation. In July, the NBS decided to pay to the banks that approve dinar loans at rates lower by at least 50 bp than the maximum rate (1M BELIBOR + 2.5pp) a 50 bps higher remuneration rate on the amount of dinar required reserve allocations equivalent to the amount of loans approved at lower rates. As a result, the dinarisation of corporate and household sector lending continued, reaching a new maximum of nearly 37% in October (up by 8.8 pp compared to end-2012).

In November, when renewed health risks emerged caused by accelerated spread of coronavirus in Europe and in Serbia, the NBS took another pre-emptive step with the aim to maintain a sufficiently high level of cheap liquidity in the banking sector and, consequently, in the corporate sector. Two lines of dinar liquidity have been offered to the banks – regular weekly FX swap purchase auctions (on Mondays) and securities purchase repo auctions (on Thursdays).

In December, the NBS decided to lower the key rate by additional 25 bps, delivering the fourth cut in 2020 in an attempt to support the economy struggling with the effects of the pandemic. After this cut, the key rate stands at a new low of 1.0%, 1.25 pp below its pre-pandemic level. The NBS also narrowed the main interest rate corridor from ±1.0pp to ±0.9pp relative to the key rate, with the deposit facility rate reduced to 0.1% and the lending facility rate to 1.9%.

Since the monetary relaxation cycle began in May 2013, the National Bank of Serbia has lowered its key policy rate by 10.25 pp. The effects of accommodative monetary stance had been transmitted into lower short-term interest rates, as well as deposit and lending rates, whereas the RSD interest rate for the corporate sector dropped by 13 pp to 3.4%, while household dinar interest rates decreased by 11.9 pp, recording a new minimum of 8.6% in October 2020.

Under the 2020 Monetary Policy Programme, the NBS continued implementing the managed float exchange rate regime, intervening in the FX market to ease excessive short-term volatility of the dinar against the euro, thus maintaining price and financial stability. Despite the turbulences in the international markets provoked by the coronavirus, the Central Bank did not allow any swings of the EUR/RSD rate, intensively intervening on the sell side. As a result, the value of the dinar against the euro remained virtually unchanged since the beginning of the year, around 117.6 dinars per euro.

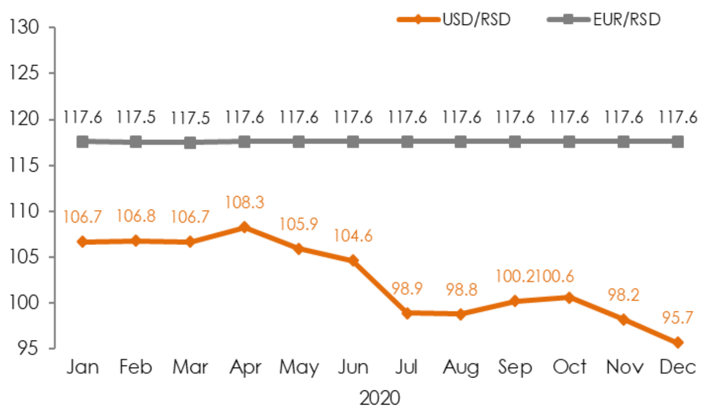
Looking ahead, the monetary stance is expected to remain accommodative to stimulate the recovery of economic activity, while the NBS will continue to closely monitor the movement and impact of all relevant factors from both the domestic and international environment on consumer prices and financial system stability. As the situation with the coronavirus pandemic evolves, a full coordination of monetary and fiscal policy measures will need to be maintained, in order to cushion potential negative shocks from the international environment and the economic fallout from the spread of the coronavirus.

Dinar exchange rate

Since the beginning of the year, the dinar stayed broadly unchanged against the euro, oscillating in a very narrow range of 117.5-117.6 dinars per euro.

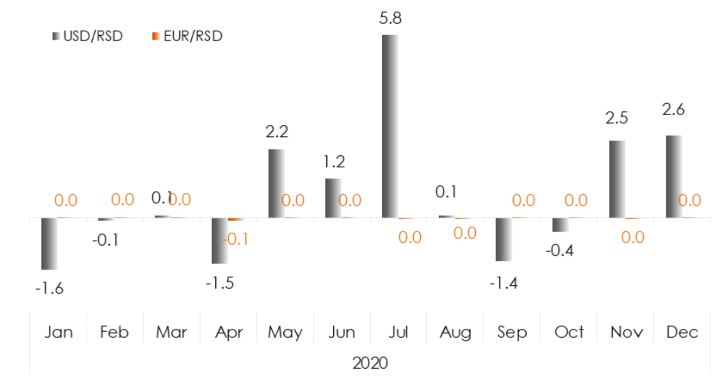
In spite of heavy depreciation pressures on local currency during the second quarter, triggered by a heightened level of uncertainty amid the global spread of the pandemic, with high level of FX reserves at its disposal, the National Bank had plenty of ammunition not to allow any oscillations in dinar value. Due to lower inflows of foreign capital and the growth of the portfolio demand for foreign currency, pressure on the dinar was most evident in April when the NBS sold EUR 440 million, followed by another EUR 250 million intervention in May. Depreciation pressures have gradually eased since summer, with monthly level of interventions notably reduced in comparison to the second quarter. Appreciation pressures on the dinar re-emerged in November, when the Central Bank intervened on the buy side for the first time since January. During November and December, the NBS net bought EUR 285 million in total, while in the period January-December 2020, it net sold EUR 1,450 million to protect dinar stability.

Graph 1 - Dinar exchange rate trend



Source: NBS

Graph 2 - Monthly exchange rate changes (in %)



Source: NBS

The NBS has enough buffer to sustain its stable dinar policy in 2021, given the ample level of FX reserves. Relatively favourable economic outlook compared to the regional peers, gradually improving export and capital flows, stable inflation and increased dinar lending are expected to be supportive of the domestic currency, which is seen at the similar level as in 2020.

Current account deficit and external debt

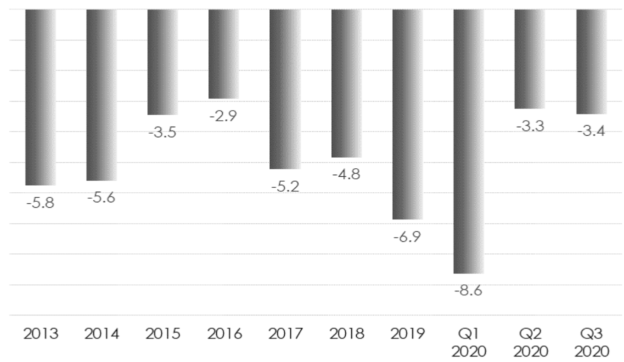
Under the influence of the crisis, there was a notable reduction in the current account deficit. A higher real drop in imports than in exports this year somewhat improved the country's foreign trade position and this effect, coupled with lower deficit in the primary income account exceeded the reduced surplus in the secondary income account.

After the first ten months of 2020, the current account deficit stood at EUR 1.65 billion, thus narrowing by 29% y-o-y. It remained fully FDI financed, in spite of notably lower net FDI inflow. According to the projection of the National Bank of Serbia, the share of the current account deficit in GDP will contract to around 5% this year compared to the 6.9% share in 2019.

The improved CA balance is influenced by favourable terms of trade (the fall in the global oil price and increase in the export price of cereals and base metals), lifted 100% tax on products delivered to Kosovo, and lower expenses in the primary income account amid lower corporate profitability due to the pandemic.

The share of CA deficit in GDP is expected to rise marginally in the next year (to around 5.5% of GDP) driven by recovery in domestic demand, while remaining fully covered by net FDI inflow, as in the past six years.

Graph 3 - Current account deficit (in % of GDP)



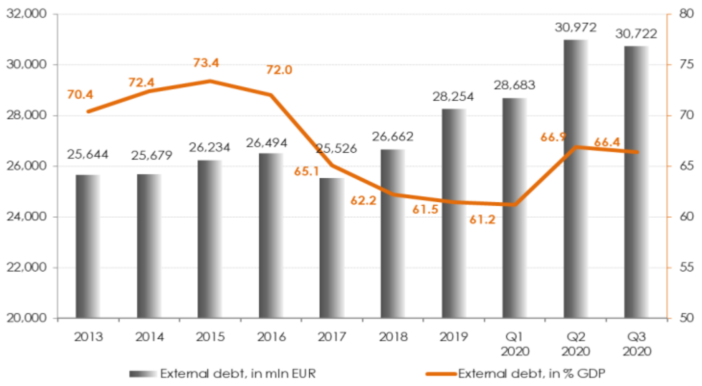
Source: NBS

After gradually decreasing in the period 2015-2019 (as % of GDP), total external debt recorded an increase in 2020 due to the COVID-19 pandemic. Based on the latest available data, Serbia's external debt amounted to EUR 30.7bln or 66.4% of GDP at the end of September 2020, increasing by around EUR 2.5 billion relative to end-2019. It, however, still stands below the threshold of severe indebtedness, according to the World Bank criteria (80% of GDP), while sustainability of the current debt level is additionally supported by its favourable maturity structure, given that the bulk of the external debt stock is long-term in its nature.

The ratio of external debt to exports of goods and services rose from 121.0% in 2019 to 139.6% in the third quarter of 2020, staying below the sustainability bound under the World Bank criterion (220%). However, Serbia does not belong anymore to the group of less indebted countries according to this World Bank criterion, since the external debt-to-export ratio exceeds the 132%-level.

Although its path looks temporarily less favourable, Serbia’s external debt is assessed to be sustainable over the medium term, according to the IMF. In its report published after the completion of the fourth review under the Policy Coordination Instrument, Serbia’s total external debt is projected to hit 67.4% of GDP at end-2020, before gradually decreasing to below 60% in 2023. Relatedly, gross external financing needs are expected to be the highest in 2021, and then gradually decline over the medium term.

Graph 4 - External debt



Source: NBS

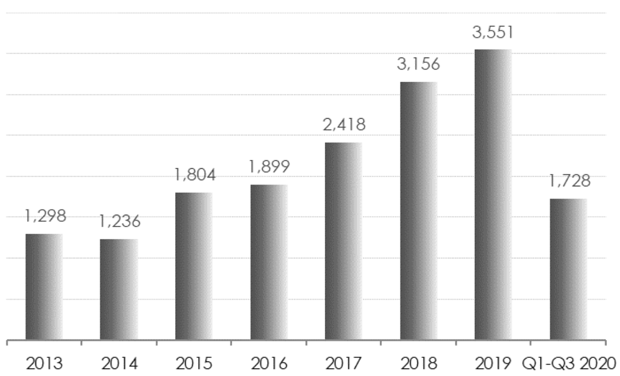
Foreign direct investment

The coronavirus crisis led to the narrowing of external imbalances, but also to a lower capital inflow compared to the same period last year. After continuously increasing for five consecutive years, foreign direct investments witnessed a notable drop in 2020. During the first three quarters of 2020, net FDI inflow reached EUR 1.7 billion, which is lower by one-third compared to the same period of 2019. The figure could still be considered solid taking into account the sharp deterioration in investors' confidence globally and the fact that it is compared to a record high inflow in 2019.

Sector-wise, one third of investments was channelled into manufacturing, followed by transport and warehousing, as well as construction. As in the previous years, the bulk of FDI came from European countries (73%), followed by Asian countries (24%).

The National Bank of Serbia projected net FDI inflow to reach EUR 2.3 billion in 2020 or 5% of GDP, i.e. to fully cover the current account deficit. However, it seems that actual FDI inflow outperformed expectations, as indicated by preliminary data presented by the NBS Governor at the year's end, which points to the FDI inflow of around EUR 2.9 billion in 2020. One of key investments that pushed up foreign capital inflows in 4Q is certainly the sale of Komercijalna Banka to Slovenia's Nova Ljubljanska Bank, a transaction worth EUR 395 million.

Graph 5 - Foreign direct investment (in EUR million)



Source: NBS

A significant rise in FDI inflow is not likely in the coming year, as economic and non-economic risks will remain elevated during the major part of 2021, while deterioration of the financial performance of the companies, potential investors, will result in the delay or possibly withdrawal from investments abroad. On the other hand, attracting foreign investment remains an important priority for the Serbian government, given the higher amount for subsidies for foreign investors planned in the adopted 2021 budget.

Foreign trade

The pandemic had a containing impact on external trade flows and in April, both imports and exports of goods recorded a sharp y-o-y drop of 28.1% and 28.9%, respectively, the highest drop in one month since the beginning of 2009. Opening of economies and recovery of domestic and external demand led to a gradual increase in monthly volumes of external trade. In the first eleven months of 2020, Serbian foreign trade reached around EUR 36.3 billion, which is 3.9% lower compared to the same period in the previous year, while the export-import coverage ratio was 74.3%. The exports of goods amounted to EUR 15.47 billion (-4.4%) in this period, while imports reached EUR 20.83 billion (-3.5%), resulting in a trade deficit of EUR 5.35 billion (-0.8%).

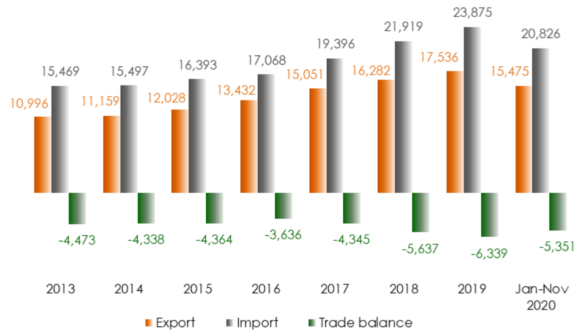
After recording the lowest value in April (the lowest monthly amount recorded since January 2017) amid a slack in external demand and halts in supply chains, exports started gradually picking up, but still remained below the last year's level. Almost all top export products of Serbia recorded y-o-y drop, except for food, in particular cereals, and vegetables and fruits.

Electrical machines and apparatus remained Serbia's top export product, with a 12.3% share in total exports. Vegetables and fruit hold the second position (5.1%), followed by cereals (5.0%). Motor vehicles, trailers and semi-trailers dropped out of the list of top 5 export products, with a registered y-o-y decline of c. 23% in the first eleven months of 2020.

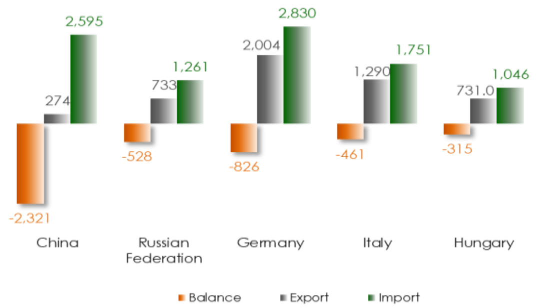
According to available data, HBIS remained the top exporter, in spite of shutting down one of its two blast furnaces in July to adjust its production to the lower demand. Tigar Tyres and Zijin Copper (RTB Bor) took the second and the third place respectively, while FCA Serbia, the country's second largest exporter in 2019 fell to the fourth place, due to the disruptions caused by the pandemic and a continued lack of demand for its FIAT 500-L model on the global level.

Around two-thirds of Serbia's foreign trade were directed towards EU countries, while CEFTA countries were the second most important trade partner with whom Serbia posted a high trade surplus with an export-import coverage ratio of 317%. The most important foreign trade partners in exports were Germany (EUR 2 billion), Italy (EUR 1.29 billion), and Bosnia and Herzegovina (EUR 1.1 billion), while the largest imports came from Germany (EUR 2.83 billion), China (EUR 2.6 billion) and Italy (EUR 1.75 billion).

Graph 6 – Foreign trade (EUR million)



Graph 7 – Foreign trade with major partners (EUR million)



Source: Statistical Office of the Republic of Serbia

With opening of economies and gradual recovery of external demand, exports results are expected to improve. The pace of recovery, however, will depend on the further course of the pandemic and the recovery dynamic of the eurozone and neighbouring countries, as our key export destinations. In the next year, the increase in imports is also anticipated, in particular imports of equipment and intermediate goods for industrial purposes, to be driven by the continuation of the investment cycle.

Fiscal policy

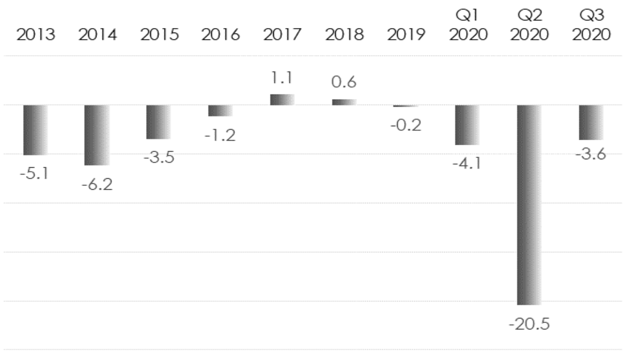
The COVID-19 crisis has affected the fiscal flows on both revenue and expenditure side. While the tax revenues decreased because of weaker economic activity, public spending largely picked up, on account of higher health-related expenditures and implementation of adopted anti-crisis measures. Owing to the improved public finances and fiscal stability achieved in the pre-crisis period, the Government was in a position to undertake adequate fiscal measures to support the economy with a package worth EUR 5.7 billion, or 12.5% of GDP.

In the first eleven months of 2020, the general government deficit reached RSD 353.2 billion. According to the November budget revision, the fiscal gap is planned at the level of 8.8% of GDP, which is the largest deficit in Serbia since the data were published. This will push public debt closer, but not above the Maastricht limit of 60% of GDP.

According to the adopted 2021 budget, budget revenues are planned in the amount of RSD 1,336.3 billion (+3.5% yoy), while expenditures are planned at RSD 1,514.8 billion (-15% yoy). As a result, the budget deficit will amount to RSD 178.5 billion or 3% of GDP, the level previously agreed with the IMF, which should halt the increase of the public debt-to-GDP ratio, barring large economic surprises.

Although the Fiscal Council recommended a strong public wage growth containment in 2021, the Government budgeted a salary hike for public servants (c. 5%), in addition to a 5.9% rise of pensions (in line with the adopted Swiss formula). On the other hand, the adopted budget foresees a significant surge in capex, with investments in state capital projects planned to reach a level of 5.5% of GDP.

Graph 8 - Consolidated budget deficit (in % of GDP)



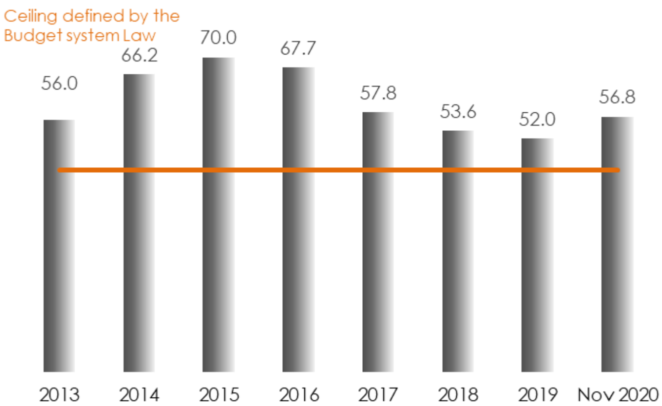
Source: NBS

At the end of November 2020, the public debt amounted to EUR 26.65 billion, while the public debt/GDP ratio stood at 56.8%.

Looking at the currency structure, a major share of public debt was in foreign currency (EUR 46.7%, USD 16.3%), while 30.3% of public debt is denominated in RSD. The dinar share is continuously increasing, making public debt dynamics less sensitive to exchange rate shocks compared to a few years ago.

Since the beginning of the year, the public debt increased by c. EUR 2.7 billion. Following strong activity on the local debt market in early 2020 and May's EUR 2 billion international launch to cover increased financing needs, Serbia again returned to international markets in late November, successfully launching a 10Y USD bond of 1.2 billion. For the first time ever, hedging via swap operations was carried out, at a 1.066% coupon rate for financing in euros, the lowest on record. The bulk of collected funds was used for an early redemption of a part of the more expensive debt under dollar-denominated Eurobonds issued in 2011.

Graph 9 – Public debt (in % of GDP)



Source: Public Debt Administration

Fiscal deficit of 3% of GDP planned for next year should enable the public debt to resume its downward path as of 2021 (as % of GDP), according to the Government's plan. However, the 2021 budget was based on a quite optimistic assumption that GDP growth will reach 6%. The Fiscal Council thus warns that in the case of lower economic growth, public revenues would easily underperform, while expenditure could be higher in case of need to grant additional aid to the real sector during next year. In that case, the deficit would by far exceed the planned 3% of GDP and the share of public debt in GDP would continue to grow (over 60% of GDP) instead of stalling.

Banking sector

At the end of 2020, the Serbian banking sector comprised 26 banks, of which 19 were foreign-owned. Number of banks remained unchanged compared to the previous year, while the number of branches and banking sector employees decreased compared to 2019.

Banking sector consolidation, which started in 2009, continued in 2020.

Since March 2020, JUBMES bank has been operating under the new business name ALTA banka, since Alta Pay Group became the Bank's largest individual shareholder in May 2019.

OTP Group significantly increased its market share on the Serbian banking market, taking into consideration that Hungarian OTP Group became the sole owner of Societe Generale bank in September 2019, which continued its operations under the new business name OTP bank. Full integration of OTP bank with Vojvođanska banka, which was acquired by the OTP Group in December 2017, should be finalised in 2021.

As of mid-November, Opportunity Bank changed its ownership structure, as the Opportunity Transformation Investments Inc. seated in the USA, reduced its prior 100% ownership share to 22%, while Umweltbank Nürnberg and GLS Gemeinschaftsbank Bochum seated in Germany became new shareholders with 30% and 19.99% shares, respectively, followed by two legal persons seated in Luxemburg and the Netherlands, both with 14% stakes.

After the European Central Bank and National Bank of Serbia gave their consent to the privatisation of Komercijalna banka in December 2020, the bank became officially part of Slovenian NLB bank. Namely, at the end of 2019, the Government of the Republic of Serbia acquired 34.58% of Komercijalna banka shares from its two shareholders - IFC Capitalization Fund and the European Bank for Reconstruction and Development. Republic of Serbia thus gained 83.23% of the Komercijalna banka's shares, which was sold to NLB bank from Slovenia in February 2020.

Total assets of the banking sector increased by 10.4% since the beginning of the year. At the end of third quarter, total assets reached RSD 4.5 trillion (EUR 38.4 billion).

During 2020, domestic credit activity continued to improve. Stable lending trend at the beginning of the year was not interrupted by the COVID-19 pandemic, due to the set of economic measures adopted by the Government and the National Bank of Serbia. Double digit loan growth was achieved by the end of September.

Since the pandemic outbreak, the NBS has implemented expansionary monetary policy, therefore significantly reducing key policy rate. Additionally, in March the NBS introduced a moratorium on debt payments for at least three months. The moratorium was accepted by around 94% of individuals and 93% of legal entities. Another two-month moratorium which was introduced during August and September, was accepted by 82% of individuals and 69% of companies. During December, the central bank approved another moratorium on debt payments for individuals, farmers, entrepreneurs and legal entities with an additional six months' deferral of repayment.

Double digit loan growth was driven by working capital loans under the Guarantee Scheme to micro, small and medium-sized enterprises and entrepreneurs. Since the beginning of the programme, banks disbursed loans worth around EUR 1.2 billion under the Guarantee Scheme by the end of September, out of EUR 2 billion in total that banks can approve as loans by the end of January 2021.

Further easing of monetary policy, low interest rates on international financial markets, as well as increased competition among banks on the domestic market, contributed to favourable financing conditions. During 2020, interest rates on dinar and euro-indexed loans to corporates and individuals, fell to all-time lows, while the downward trend of differential between interest rates on dinars and euro-indexed loans continued, especially in the corporate sector.

Since the beginning of the year, total customer loans increased by 9.9%, reaching RSD 2,622 billion (EUR 22.3 billion) at the end of the third quarter of 2020. Credit activity increased in both corporate and household sector.

Corporate loans reached RSD 1.366 billion at the end of the third quarter, increasing by 13.3% y-o-y. Loan growth is partially driven by the moratorium, but also by loans from the Guarantee Scheme. Observed by industry, placements to the manufacturing, construction, agriculture and real estate sector were the main driver of loan growth in 2020. Nevertheless, despite measures implemented to mitigate negative effects of the pandemic, in the first nine months, the volume of new placements to the corporate sector dropped by 14.9% compared to the same period of the previous year.

Until September, loans to individuals increased by 13.8% on the annual level, reaching RSD 1,255 billion. Easing lending terms, moratorium and loans to entrepreneurs from the Guarantee Scheme, led to increased loan volumes at the end of the third quarter. However, taking into consideration newly approved loans as of September, placements to individuals recorded a drop of 24.4% compared to the same period of the prior year. On average, more than 50% of loans approved to individuals during the first three quarters were consumer loans, followed by mortgages.

Dinarisation trend continued during 2020, thus improving the currency structure of loans compared to the previous year. Share of dinar loans in total placements to companies and individuals in September reached its new highest level of 36.6%. In the corporate sector, the level of dinarisation rose to 19.3%, while placements in local currency to households reached 56.6% of total placements to this sector.

Dinarisation was strengthen by new placements to individuals, since at the end of September more than half of these credits were approved in domestic currency.

Dinarisation was also supported by a drop in interest rates on dinar loans to the corporate sector due to favourable loans under the Guarantee Scheme.

By the end of September, the trend of increasing deposits in both domestic and foreign currency continued. Total deposits as a primary source of funding in the Serbian banking sector rose by 13.3% mainly due to the consumption restraint caused by uncertainty due to the COVID-19 pandemic. In the third quarter of 2020, deposits reached the volume of RSD 3,095 billion, accounting for more than two thirds of the total market liabilities. The euro is still the dominant currency, making up more than 90% of total FX and FX-indexed deposits, while the rest of FX and FX-indexed deposits are mainly denominated in USD and CHF.

From the beginning of the year until the end of September, short-term deposits represented 90% of total deposits. Demand deposits remained the dominant category.

The stock of NPLs continued to decrease in 2020, due to the successful implementation of the NPL Resolution Strategy and the Decision on the Accounting Write-Off of Bank Balance-Sheet Assets. In September, the NPL ratio reached its latest low of 3.4%. Compared to the end of 2019, the corporate NPL ratio fell by 0.7 pp, reaching the all-time low of 2.5% in September 2020. The sectors which contributed the most are construction, real estate and trade. Reduction of NPLs related to mortgages noted in the first quarter and the reduction of NPLs of almost all other categories in the individual segment during the second and the third quarter, led to a new record low of NPLs for the household sector of 3.6% at the end of September, which is by 0.3 pp below the 2019 level. However, an NPL increase is expected in 2021 due to negative economic consequences of COVID-19.

Regarding the banking sector profitability, the decrease in the share of non-performing loans in total loans did not contribute significantly. As of September, 19 banks recorded positive results. Total net income before tax amounted to RSD 43.4 billion, RSD 10.7 billion (19.7%) lower compared to the result achieved in the same period last year. The main reason for worse result are increased provision expenses which reached RSD 15.1 billion, or RSD 11.3 billion more compared to the same period last year, caused by uncertainty regarding the future economic situation, i.e. expected increase in non-performing loans.

Compared to the same period last year, operating margin fell by 1.1% in September, reaching RSD 58.5 billion, primarily due to inefficient cost controlling. Namely, in the same period, operating expenses rose by 10.9% or more than RSD 8.2 billion in absolute terms, mostly on the account of increasing administrative expenses (13.9%), while personnel expenses climbed by 7.5%. In September 2020, operating income expanded by 6.6% y-o-y or RSD 8.8 billion in absolute terms, reaching RSD 141.5 billion. Higher net operating income is the result of higher income from trading and other operating income which rose by RSD 6.9 billion and RSD 2.8 billion, respectively.

Even though the interest rates were at the record low level, interest income rose slightly, reaching RSD 96.4 billion, outpacing the result from September last year by RSD 0.3 billion or 0.3% y-o-y. Net commission income reached RSD 29.6 billion and was lower by RSD 1.1 billion (3.6%) compared to the same period last year.

At the end of September 2020, return on assets (ROA) was lower by 0.5 pp compared to the same period last year, landing at the 1.4%. At the same time, return on equity (ROE) declined by as much as 2.4 pp y-o-y, reaching 8.2%.

The capital base of the banking sector in Serbia increased by RSD 11.2 billion (1.6%) compared to the beginning of the year. At the end of the third quarter, the capital adequacy ratio of the banking sector reached 22.4%, well above the regulatory threshold. At the end of September, the loan-to-deposit ratio reached 88.3%, while share of liquid assets in total assets equalled 36.2%, thus confirming the liquidity of the banking sector.

In 2020, Banca Intesa has strengthened its leading position with the dominant market share in all key indicators. At the end of the third quarter, the share of Banca Intesa in total assets, customer loans and customer deposits equalled 15.2%, 15.4% and 16.3%, respectively. Banca Intesa has the highest level of capital, with a significant market share of 14.9%. Additionally, the Bank has a leading position in payment card and payment operations, with a growing client base of around 1.36 million clients. The Bank has a wide-spread network with 153 branches, strongly supported by the largest network of ATMs and POS terminals in the market.

5. Highlights of the Bank’s Strategy and Planned Development

In the previous period Banca Intesa Beograd, guided by its strategic orientation, strengthened its leading position in the Serbian banking sector, based on stable growth and sustainable value creation, while remaining committed to actively supporting Serbia's economic recovery.

The Bank's strategic objectives defined for the period 2018-2021, have already given results, predominantly in terms of improved market position driven by digital transformation, and revenue growth through capturing new business opportunities, while simultaneously maintaining credit portfolio quality and cost discipline by simplifying business processes and increasing efficiency.

Accomplishment of the Bank’s objectives is summarised in the following five initiatives:

I Driving digital transformation while reviewing the role of the physical network

Through the application of digitalisation, the Bank continuously improves customer services providing various, innovated benefits to customers along with time savings. The Bank has successfully developed and implemented online products, services and experiences especially via upgrading mobile and online applications and introducing new platforms for corporate clients. Also, the Bank continues to work on physical network optimisation and digital process improvement.

II Increasing revenues in a very competitive environment while improving fee-based contribution

In a highly competitive environment, the Bank is focused on strong lending activity while also building a sound loan portfolio. Several activities are supporting this initiative such as active customers’ boost and proactive sales approach. The Bank intends to enhance product cross-selling in cooperation with Intesa Sanpaolo Group, with the aim of further improving the promotion of hedging and structured finance products and joint approach to debt capital markets. The Bank has built new sources of fee-driven income by expanding into the wealth management market through its asset management company – Intesa Invest, as well as by expanding the range of insurance products and utilising the growing market potential for life insurance product sales. Leveraging COSME and InnovFin guarantee schemes with the EIF, the Bank responded successfully to the strong market demand for products with risk-sharing features.

III Improving cost discipline

Bearing in mind its commitment to improving efficiency and simplifying the business model, the Bank continues the process of cost optimisation through organisational and process review. Namely, the Bank aims to maximise the efficiency of the business network through network organisation analysis and automation of business processes, application standardisation and rationalisation. In terms of increasing productivity, saving time and guaranteeing higher service quality, while at the same time reducing non-value-added activities, the Bank continues with the automation and digitalisation of business operations and processes.

IV Improving credit quality

The Bank has significantly improved its credit quality through proactive credit portfolio management and timely NPL reduction initiatives. Moreover, the Bank works on credit risk management improvement through harmonisation with Group methodologies, as well as on internal credit rating models for the purpose of converging to the standards of advanced approaches to credit risk measurement. Processes for the identification of target industries are being improved with the aim of aligning credit quality and commercial efforts, especially in the segment of small business and SME, taking into account the credit potential and positive business prospects in this business segments. Also, further improvements of the redesigned, revised and enhanced credit and underwriting process for SB and SME clients is conducted, aiming at wider usage of internal ratings refined by credit criteria, by differentiating between types of credit processes and expanding the scope of clients. Proactive credit portfolio management and NPL management will be further strengthened.

V Strengthening the Group operating model in the key areas

The Bank is focused on strengthening its relationship with the Parent Group through several initiatives, primarily through the implementation of strategic projects that provide an adequate infrastructure for growing business needs and digitalisation era. These projects will enhance steering and monitoring in business, control and support areas, and also further develop standardisation and economies of scale in IT Operations. Recognised as the most important part of the Bank and one of the main drivers for the realisation of the Business Plan, further staff development will be supported by several initiatives of the Group. That said, the Bank will develop enablers to support performance through the new performance management assessment with the improved performance appraisal process and new incentive system and strive to assert the distinctiveness in employees.

6. Retail Banking

Individuals

- *The housing loan segment recorded the highest growth ever, due to implementation of the new service model that reduces the duration of the entire process and customer engagement to a minimum*
- *Introduction of a new Intesa Invest fund and further development of insurance business through product offer expansion and development of cooperation with external partners*
- *Start of implementation of the new digital platform as a reliable path to improve user experience and reinforce customer relationship*

The strategic orientation of Banca Intesa towards continuous development of service quality and business transparency, aimed at improving customer satisfaction, was especially evident in the previous year, marked by uncertainty in all aspects of global business. The most attention is paid to the process adaptation and creation of conditions enabling clients to continue their cooperation with the Bank, while staying healthy and safe. The confidence of clients in the Bank's business approach is reflected in the growth of primary client base at an annual rate of 1.16%.

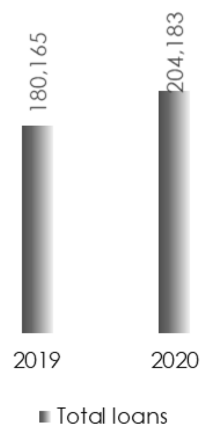
Even with extraordinary challenges during 2020, the Bank did not only confirm its leading market position, reflected in significant market shares in all key products offered to individuals, but also significantly improved its offer of innovative products, thus meeting the broader range of sophisticated financial needs of its customers, while maintaining the stability of all relevant business indicators.

By maintaining stability in all business segments, Banca Intesa managed to successfully respond to all challenges imposed by the dynamic market in the past year marked by general uncertainty due to extraordinary circumstances. Through numerous innovations and improvements focused on customer satisfaction and transparent communication of price and non-price elements of products and services, the Bank granted cash loans in the amount of EUR 274.6 million (RSD 32.3 billion). Such business results contributed to retaining the Bank's market share in cash loans of 12.7%, with stable number of clients with active cash loans, maintaining the level from the previous year.

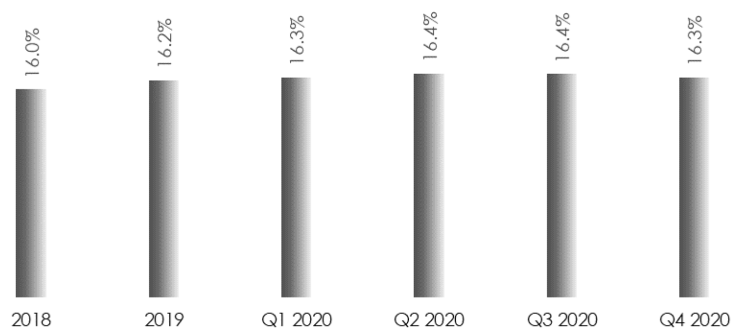
Having in mind the importance of resolving the housing issue, in the past year the process was modified and simplified for the purpose of improving user experience and satisfaction. The best indicator that Banca Intesa is the most relevant partner in the mortgage loan market, is the mortgage lending growth of 5.7% compared to 2019 and the achieved volume of EUR 173.5 million (RSD20.4 billion). The increasing trend of market share in new mortgage lending continued in 2020, rising from 20.1% at the end of 2019 to 21.0%. In addition, the number of clients with mortgage loans increased by 11.55% compared to the previous year.

The perennial growth of active retail banking activities is the best indicator that clients appreciate the high level of service and business policy orientation towards clients and their actual needs, as well as the principle of business transparency.

Graph 12 - Loans to individuals (in RSD million)

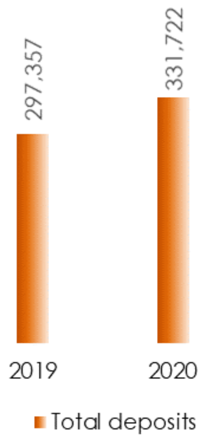


Graph 13 – Market share in loans to individuals

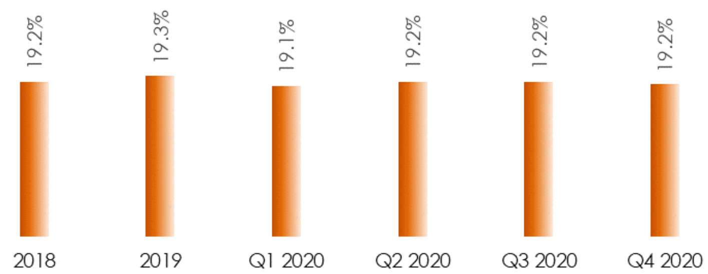


In terms of customer liabilities, the Bank achieved perennial growth of retail deposits, above the market average. Individual's deposits have been growing steadily throughout 2020, reaching RSD 332 billion in 2020, growing by 11.6% compared to the previous year. Market share of Retail deposits was 19.2% at the end of 2020, the same level as in the previous years.

Graph 14 – Deposits of individuals (in RSD million)



Graph 15 – Market share in deposits of individuals



The low interest rate trend continued in 2020, thus contributing to the further growth of Intesa Invest assets under management, Although clients withdrew significant amounts from the funds in the second quarter of 2020 due to the uncertainty caused by the pandemic, in very short term the business was back on track and even improved at the end of the second quarter. This further confirms the confidence that clients have in the Bank and related companies, but also in the Group to which the Bank belongs. At the beginning of December 2020, the Bank introduced the third Intesa Invest Cash Euro fund, which will contribute to a further increase in assets under management, while giving more possibilities to the clients as well as increasing their satisfaction. Asset under management collected in Retail segment amounted EUR 72 million at the end of 2020 and together with legal entities EUR 107.5 million.

Further improvement and expansion of the Bank's financial product offer is an essential precondition for an adequate response to growing market demands and differentiated clients' needs. Insurance products represent an integral part of this offer and great potential for the Bank. During 2020, exceptional results were achieved in the sales of CPI insurance with personal loans, in cooperation with partnering insurance company Wiener Städtische.

Starting from November 2020, the Bank's clients have the opportunity to insure mortgage loan repayment against the following insured risks: involuntary loss of employment, sick leave, permanent disability or accidental death. Together with its partner Generali Insurance Serbia, Banca Intesa is strongly dedicated to further promotion of this insurance that will provide security to its clients and their families. In 2020, Banca Intesa worked intensively on improving the sales network both in terms of sales skills and increase in the number of licensed advisors, the effects of which are expected in future period.

Payment card business

During 2020, Banca Intesa maintained its leading position in payment card business with a market share of 20% in the number of delivered payment cards, 25% in the number of POS terminals, 70% in the number of internet POS terminals, as well as share of 25% in the total number of payment transactions completed in the country and abroad. Considering the realised volumes, Banca Intesa holds a 31% market share in the POS transaction volume and an 80% market share in the internet transaction volume.

The number of transactions performed with Banca Intesa payment cards was on the rise in 2020 as well, recording an annual growth of 11%, while the realised volume recorded a slight annual decline of 0.1% due to the COVID-19 pandemic, and consequently a reduced share of international transactions.

In terms of POS terminal operations, including internet POS terminals, the number of transactions rose by 9%, while the turnover volume increased by 8% in comparison with the previous year. In addition, Banca Intesa continued to harmonise and improve the acceptance network, constantly expanding the number of new users. Furthermore, the entire network supports the acceptance of contactless payment cards, and since the end of 2020, one more novelty has been introduced in the form of accepting IPS / QR transactions via mPOS, POS and E-commerce channels.

Moreover, the Bank has continued expanding the network of merchants where cardholders can pay in instalments to over 9,000 outlets and increasing the maximum number of instalments to 24, resulting in an increased share of instalment transactions in total sales.

In 2020, activities aimed at increasing the use of payment cards on the Internet and expanding the network of e-commerce traders continued, affecting the growth of turnover of the Bank's e-commerce retailers of 72%, compared to the previous year.

The Bank continued with a number of activities focused on the joint campaigns of the Bank and the merchants, who provided significant discounts and benefits to Banca Intesa payment cardholders.

Digital channels and e-services

In 2020, the Bank continued its strategic commitment to digitise a significant number of activities which would have a significant impact on both the internal processes and the perception of clients of the Bank as a technological leader at the market.

During 2020 the main focus of the Bank concerning direct channels was the implementation of the DigiCal programme which envisages a three-year path to the full introduction of a comprehensive digital platform in the Bank, which, together with the changes brought by the new information system (Flex Cube) will completely change the experience that both clients and employees have in the Bank. By implementing the DigiCal programme, the Bank has joined the members of the Group who already carried it out successfully, including, among other things, digital branch project, the Bank's new website, the new internet and mobile banking applications with improved user experience and multiple other new functionalities.

The growth of digital platform users in both the individual and legal entities segment indicates that in 2020 the Bank succeeded in maintaining the quality of services and digital customer satisfaction.

Digitalisation of individual clients in 2020 is completely driven by the mobile app adoption. The number of users of digital transactions grew by 25% during 2020, mainly on the account of increased usage of the mobile app for everyday banking, while the number of active users of mobile apps rose by 13% y-o-y.

Furthermore, the number of monthly active business customers is very stable and around 75 thousand. In-house e-banking is used by 78% of transacting digital customers, 7% use Halcom, while Bizmobi app has a 19% share, with a continuously upward trend. Although over 90% of all digital transactions are executed on e-banking solutions, the mobile app is the one with significant growth as it attracts low transactors from branches.

E-commerce purchases on the Bank's terminals doubled during 2020, as did the monthly turnover, while the merchant charge increased by 70% since the beginning of the year.

Numerous innovations were introduced during 2020. Cash-in feature was introduced on Banca Intesa ATMs in August, while 15 thousand unique customers have used the service so far, with the average customer deposit amounting to 450 euros per month. Starting from November, the Bank implemented Dynamic Currency Conversion (DCC) – a functionality which enables the cardholder of international payment cards to choose the currency to be charged.

Starting from December the Apple Pay service for VISA cards was introduced, which enabled new, innovative, easy and fast contactless mobile payments for individuals and legal entities. More than 14 thousand transactions were executed during the first 2 weeks of implementation. Implementation of Apple pay for MasterCard is underway and go-live is planned for next year.

Development of Smart notification engine (SNE), as a central place where all addresses and notifications for clients are going to be managed, is in progress. This engine will enable the Bank to manage notifications in a way that is more effective - by choosing the delivery channel which is the most suitable for the notification and which will have the lowest delivery costs. Consequently, the engine introduction will have a significant impact on delivery cost reduction.

During 2020, the work on the implementation of the regulatory project "Instant payments at the merchant's point of sale" continued. In 2020 instant payments were enabled within Intesa Mobi and Biz Mobi applications, allowing clients to make payments via the mobile application by scanning QR codes from POS terminals or other devices of the merchant – that is, from an e-commerce point of sale. Customers can also generate a QR code within the mobile application, and in this way instant payment is made by the merchant scanning the generated QR code. In this way, the Bank contributes to the promotion of non-cash payments, at the same time providing lower costs for merchants as well as an easy way to use this functionality for customers through already existing mobile applications.

The Bank continues to support strategic projects of the National Bank of Serbia and maintains the role of a significant catalyst in the implementation of digitalisation in the country.

Business network

On top of the reorganisation of the business model and adjustment of the branch network availability to official restrictive measures introduced in line with COVID-19 pandemic developments, the business network was further improved in 2020 through the continued implementation of the AGDM (Adopting Group Distribution Model) standards while providing prerequisites for achieving goals defined by the AGDM project. Since the beginning of the project, 30 branches have been aligned with modern trends in banking sector, as well as 21 self-service zones ("Zone 24").

New service model is implemented in 62 branches, covering 40% of the total number of branches in the network and more than 60% of Banca Intesa's network net operating margin. A total of 116 *Upper Mass* advisors cover 106,000 clients, representing 74% of total *Upper Mass* customer base. Employees in branches where the new service model is rolled out fully accept the AGDM related changes and, like before, recognise benefits for clients, but also for their own work efficiency, as well as carrier opportunities.

Further implementation of ATS devices for depositing cash of legal entities continued, resulting in an ATS network of 42 devices. So far, 60% of total amount of legal entities' deposits is placed through these machines in ATS branches, accounting for 30% of total cash amount at the level of the entire network.

Banca Intesa has successfully continued to renew its ATM network, with the acquisition of additional ATMs and multifunctional devices. At the end of 2020, the ATM network counts 326 devices, of which 116 external and 210 within Banca Intesa branches.

At the Contact Centre, the year was in line with the developments of the COVID-19 pandemic and resulting changes in branch availability and client behaviour. During the state of emergency, an additional inflow of calls was successfully handled by applying several different methods, such as IVR changes, support during the peak periods, the expanded list of client request types that can be handled by the Contact Centre, etc.

Small business and registered agricultural households

- *Leading creditor of the domestic economy*
- *Support to the economy in difficult business conditions*
- *Continuation and development of cooperation with renowned financial institutions*

Small business segment covers cooperation with small legal entities, entrepreneurs and registered agricultural households. Those businesses, although flexible by their nature, were particularly exposed to the negative impact of changed business circumstances caused by the COVID-19 pandemic during 2020. In the eye of the global crisis, SMEs had to face several challenges ranging from the transformation of traditional business models, current liquidity maintenance issues, as well as the challenge of human resource management and especially maintaining the existing level of employment in the circumstances of reduced business volume and uncertain business climate. In those conditions, Banca Intesa, as the leading creditor of the domestic economy, has placed all its resources and activities in the service of supporting the economy, primarily by providing entrepreneurs with access to favourable lending conditions, as well as the possibility to relax and reschedule existing obligations.

Banca Intesa confirmed its role as the market leader with a share of 22% in the cluster of entrepreneurs, while in the segment of agricultural business, the market share of 12% puts the Bank in the position of the leading bank in this market segment as well.

During 2020, the economy was supported with 247 million euros of new initiatives in the small business and agriculture segment. The number of financed clients in the small business and agriculture segment reached the level of 22 thousand. The loan portfolio also recorded a positive trend with a growth of 13% (12% in the small business segment and 18% in the agricultural sector).

Small business segment

Micro, small and medium-sized enterprises are the backbone of a stable economy, a key prerequisite for sustainable economic growth and social progress. This market segment proved to be particularly vulnerable and exposed to negative impacts both on the supply and on the demand side during 2020. Recognising the challenges faced by the domestic economy, the government introduced a number of measures available to the domestic economy with the support of the banking sector. Entrepreneurs were given the opportunity to consolidate their business with the introduction of loan repayment deferrals.

In addition, the Government of Serbia urgently adopted a package of economic measures which, among other things, include the deferral of tax liabilities and assistance in the payment of minimum wages to employees, as well as the provision of additional sources of financing. One of the most important measures is the risk-sharing lending programme, which allows all micro, small and medium-sized enterprises access to additional funds of up to 25% of last year's income at attractive interest rates, with a repayment period of up to 36 months and a grace period of 9 to 12 months. Banca Intesa reached a dominant share in the placement of this type of loan - 28% in number of loans and 22% in volumes in the cluster of entrepreneurs and microenterprises.

In order to make attractive financing models available to the domestic economy, Banca Intesa continued its cooperation with renowned financial institutions. Cooperation with the European Investment Fund (EIF) continued. In partnership with the EIF, Banca Intesa has offered loan products to the market for a few years now, intended both for the working capital (COSME programme) and for investment in long-term innovative business ventures (InnovFin). Owing to the extended repayment period, relaxed collateral requirements, as well as the favourable interest rate, a total of EUR 45 million of funds was placed during 2020 through the previously mentioned programmes. Starting from 2019, EDIF invest and EDIF revolving loans are available to businesses. They represent complementary products and attractive long-term investment options with relaxed requirements in terms of collateral. Through these products, during 2020, businesses used EUR4 million.

Since 2015, Banca Intesa and the European Bank for Reconstruction and Development (EBRD) have been working together to support women's entrepreneurship. During 2020, Banca Intesa signed the fourth consecutive contract with the EBRD, placing additional EUR 8 million of funds at the disposal for the Woman in Business (WiB) line. During 2020, 160 business ventures were financed with EUR 1.2 million through this line, while since the beginning of 2015 EUR 17.5 million have been used to finance 1800 business ideas of women in business. In addition, a special package of banking products has been dedicated to this market niche. Woman in Business bundle in Banca Intesa includes benefits related to payment operations and digital banking.

The comprehensive offer of Banca Intesa intended for micro, small and medium-sized enterprises also includes leasing products as well as an alternative to classic forms of savings through the products of the Intesa Invest Fund. Leasing placements in the small business segment reached a level of EUR 3.6 million. Option of investing in Investment Funds (and cooperation with a team of professionals oriented towards stable returns) is extremely attractive for small business clients. In 2020 payments to Intesa Invest Funds amounted to EUR 27 million, with a final balance of EUR 24 million (75% growth compared to 2019).

Registered Agricultural Households segment

Since started to operate in segment of registered agricultural households (since 2008) Banca Intesa has supported this segment with over 400 mil EUR loans (over 50 million in 2020). This result enabled it one of the leading positions when it comes to financing agricultural clients.

In cooperation with the EIF, Banca Intesa has introduced a new loan product, EaSI Farmer Invest loan (guarantee programme with a capacity of EUR 30 million). These are investment loans that will enable the Bank to improve the maturity structure of the agro portfolio and thus further stabilise it, to strengthen cooperation with the existing, as well as facilitate the acquisition of new clients.

As in previous years, in 2020 the subsidised lending programme in cooperation with the Ministry of Agriculture, Forestry and Water Management proved to be particularly important, where the Banca Intesa participated with about 19% in the total amount and with around 23% in the total number of approved loans. This is an even better result compared to the previous year, since according to both indicators (number and amount) Banca Intesa rose to second position in the market. Cooperation with a number of local governments throughout Serbia also continued through financing farmers with municipalities subsidising part of the loan interest.

An initiative of establishing cooperation with a number of sellers of agricultural machinery is on track, based on subsidising part of the client's interest, thus creating an attractive long-term loan product.

The Banks works on improving Farmer Centre - a specialised branch with a focus on servicing the needs of major agricultural producers, which proved to be an extremely successful business model, but also works on opening of a new one centre.

As a result of all undertaken activities, the total portfolio reached the level of EUR 76 million, while the total number of loan beneficiaries is 7,000.

7. Corporate Banking

- *Banca Intesa as a reliable partner in hard times*
- *Various external studies confirm that Banca Intesa ranks first regarding the number of clients*
- *Higher-value services available to clients, from expert transaction banking to innovative digital solutions*

Challenging business conditions caused by the global COVID-19 pandemic have also negatively affected the corporate segment.

Exports fell by about 4.4% on an annual basis, while industrial production during 2020 fell by around 1.4% compared tothe level of 2019. As for the industrial sectors, most industries have been affected by the economic crisis caused by the pandemic, while leisure and tourism have suffered the most. In order to cope with such difficult business conditions, the NBS made a number of decisions aimed at supporting the domestic economy. During 2020, the NBS reduced the key policy rate four times, with the aim of enabling cheaper borrowing. Also, a decision was made on a moratorium on corporate loan repayment (on a voluntary basis). More precisely, in order to relax the economy as much as possible with regard to loan repayment, the NBS made a decision to introduce a debt moratorium three times. In the SME, Large and Multinational segment, about 88% of clients accepted the first moratorium, while about 55% of clients accepted the second moratorium. The third moratorium during 2020 is only in its initial stage and has not taken effect yet.

Finally, in order to further preserve the economy, the Ministry of Finance made a decision on the so-called State Guarantee Scheme, with the aim of easier and cheaper borrowing by legal entities. During 2020, over 800 clients of the Corporate & SME Division used this type of financing, in the total amount of over RSD 17 billion. In this aspect of financing, Banka Intesa has maintained its dominant position in the financial market with about 15% of total sales. For the purpose of further stabilisation of the economy, the Ministry of Finance has facilitated the process of borrowing by issuing corporate bonds. Banca Intesa successfully participated in the first issue of such bonds of the Telekom Srbija company, which is also one of the most important clients for the Bank.

As a result of the presence of a large number of commercial banks, the financial market is still extremely competitive and thus provides businesses with access to easier and more favourable additional financing, both from banks' own funding and from various credit lines provided by domestic commercial banks in cooperation with foreign creditors.

As in the previous year, during 2020, the Corporate & SME Division, in cooperation with two renowned, international consulting companies, performed an analysis of certain aspects of business in relation to the competition. In both cases, these independent analyses showed that Banca Intesa is a leader in many aspects of business, both in terms of the number of clients, amounts of placements and different product categories, as well as in terms of profitability and efficiency of the sales network.

Although the business conditions were extremely difficult, the Corporate & SME Division continued to operate stably in 2020 and recorded a loan portfolio growth of about 10.6% compared to the previous year, providing a market share in total loans granted to the economy of 15.7% at the end 2020. Annual growth of the loan positions, as well as the new production of credit products, outperformed the banking sector, contributing to the preservation of the Bank's leading position in the business segment.

As far as deposit transactions with legal entities are concerned, the Bank also constantly records a dominant position on the market, which resulted in a market share of 15.1% at the end of 2020. As regards documentary activities related to issued bank guarantees and letters of credit, a certain decrease of about 2.5% was recorded compared to the previous year, due to the emergency situation in the economy caused by the COVID-19 pandemic.

Figure 16 – Corporate loans (in RSD million)

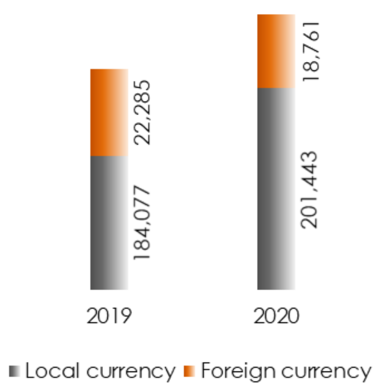


Figure 17 – Market share of the Bank in corporate loans

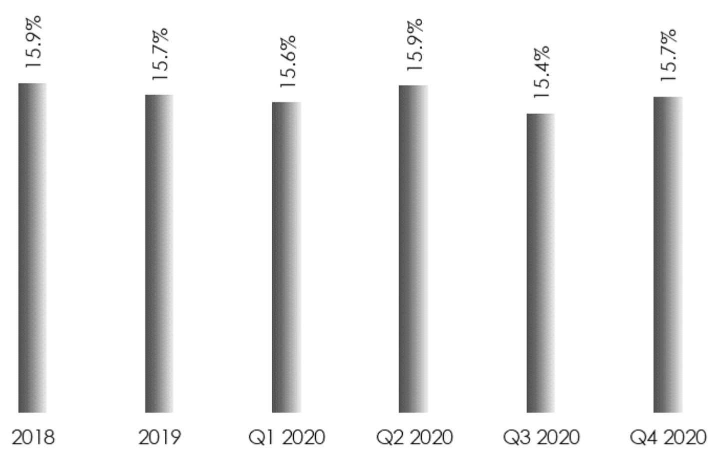


Figure 18 – Corporate deposits (in RSD million)

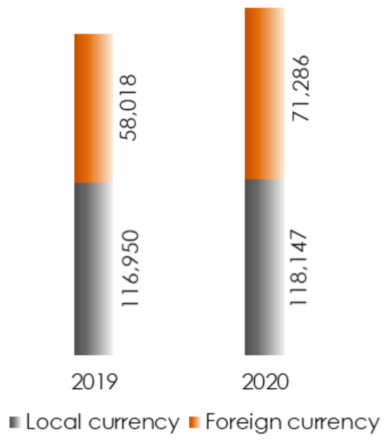
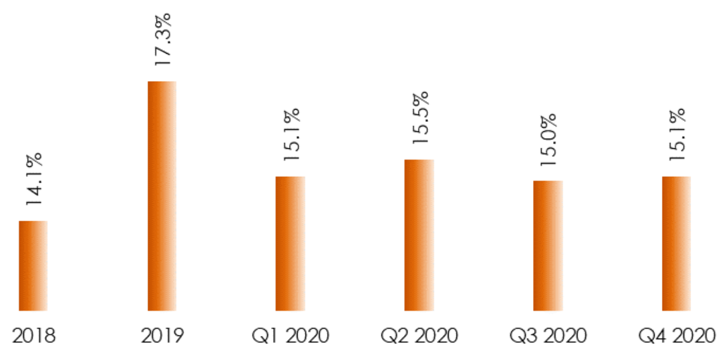


Figure 19 – Market share of the Bank in corporate deposits



The Corporate & SME Division is still the largest in the market in terms of the number of clients, which was confirmed in various external surveys of the banking sector, with approximately 7,000 active clients, representing more than three quarters of the total client base available on the market.

During 2020, the demand of legal entities for additional sources of financing was lower, mainly caused by the previously mentioned pandemic, and also by moratoria on loan repayment, which contributed to lowering the financial needs of clients for new loans. On the other hand, the loan volumes at the end of 2020 remained relatively stable. Thus, the Corporate & SME division recorded an increase in loan placements by 10.6%, on yearly level.

Besides the stability in loan and deposit volumes, the Division also noted the stability of the number of both active and financed clients.

In addition to the above, in the segment of Small and Medium-sized Enterprises, the Bank continued to recognise the client needs for the most efficient and simple credit process through the improvement of business processes, as well as attractive credit lines provided in cooperation with foreign creditors (EBRD, EIB ...).

Thus, in 2020, a credit line with the EBRD was signed, which was used to finance clients through the State Guarantee Scheme.

During 2020, the share of non-performing loans recorded a further decline, despite the aforementioned economic difficulties. It is expected that this trend will continue in the upcoming period, which will contribute to further strengthening the quality of the loan portfolio, all as a result of a responsible and prudent credit policy when it comes to the risks to which the Bank is exposed in day-to-day operations.

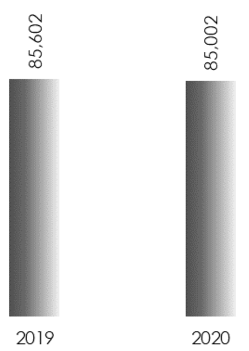
Transaction banking

The Bank continues to strengthen its relationships with prominent corporate clients, providing higher-value services and, at the same time, promoting various transaction banking services. Accordingly, the Bank's clients have access to the global transaction banking through the ISP Group.

Moreover, the Bank continues to upgrade the *Payment Factory* service, which led to an increase in the number of leading multinational corporations that have decided to operate with Banca Intesa, relying on new services, extensive global network and wealth of experience. This service, which enables the centralisation of payments, collection and reporting is still unique on the domestic market.

The Bank remains committed to meeting the specific needs of its diverse customer base in export/import operations in order to ensure smooth performance of relevant trade and financing operations. In this regard, the volumes of documentary transactions as well as the number of transactions remained relatively stable.

Figure 20 – Guarantees and other commitments (in RSD million)



Factoring

During 2020, factoring operations maintained their turnover level from 2019, of around EUR 150 million, with an increase in the level of placements compared to 2019. In addition, several new, highly reputable clients were acquired, while the effects will be visible in 2021.

Regarding development activities, the Bank is in the final phase of development of a new transaction, aimed at purchasing export receivables covered by insurance policies issued by the national ECA – AOFI. Acquisition of clients for this kind of product shall be conducted during 2021. In addition, the RFI process regarding the selection of vendors for the development of a digital factoring platform has been completed. During 2021, the Bank plans to upgrade the core factoring system and to implement a factoring platform, along with the implementation of a confirming solution for international factoring, with the support of the ISP Group.

Structured (project) finance

Banca Intesa strives to be recognised and proven on the market as a reliable partner, providing stable support to clients in project financing such as real estate and renewable energy sources.

The Bank has recognised the potential and benefits of this type of financing, with an orientation to market leaders, and the most relevant projects and real estate. All financing is realised in accordance with the rules and principles of project financing.

The focus in 2020 was the continuous growth of the project financing portfolio, but with careful monitoring of all projects with regard to the COVID-19 pandemic. These activities contributed to the portfolio growth, evidencing quality and resilience to the pandemic:

- Project finance portfolio grew by 33% in 2020 compared to 2019 (EUR 120.8 million in 2020 vs EUR 90.9 million in 2019);
- Projects in the Bank's portfolio recorded a stable business result, relying on strong fundaments and sustainable repayment capacity, with regular settlement of all obligations towards the Bank and without NPLs.

Considering all activities from previous years, the portfolio has been enhanced by adding new real estate projects, with good diversification (various residential and commercial real estate projects) as well new renewables projects (the first wind park financing by Banca Intesa approved), amounting to EUR 190 million, while the effects will be seen in the coming years.

In 2021 the Bank will strive to increase additionally its profitability and volume of project finance portfolio through the implementation of the existing projects. At the same time, the Bank will increase its market presence through new quality projects arising from market potential, and upgrade relations with domestic and international investors, while optimising its internal processes. The focus will be on continuous strict monitoring of all existing projects during the pandemic.

In addition, the Bank's operations comply with the Equator Principles, which ensure adequate risk management in financing transactions related to renewable energy sources.

EU Desk

Banca Intesa, as a financial intermediary, continued its successful cooperation with the European Investment Fund (EIF) on the implementation of available European Union programmes, through which it provides easier access to financing for SMEs.

With a total portfolio of EUR 800 million (and four different programmes implemented in cooperation with the EIF), Banca Intesa is the absolute leader in the domestic market in terms of portfolio size, number of clients supported, total volume, as well as diversity of product offerings available through the EU Programmes.

This year, 2020, is the last year of the current EU financial perspective (2014–2020), and even though there are programmes in the next financial perspective (2021–2027) designed as successors to the existing programmes, for the purpose of providing continuity in the implementation of similar guarantee facilities (such as Invest EU), the launching of calls and introduction of new programmes has been postponed due to the outbreak of the COVID-19 pandemic.

Banca Intesa remains committed to undertaking all necessary activities in order to take part in the announced programmes, as soon as they become available.

Responding to the crisis caused by the COVID-19 pandemic outbreak, in April, Government of the Republic of Serbia adopted a Decree on Guarantee Scheme, based on which 25 Guarantee Agreements were signed with domestic Banks. Banks were enabled to offer liquidity and working capital loans with a state guarantee and hence further support legal entities.

In May 2020, Banca Intesa signed a Guarantee Agreement with the Ministry of Finance and the National Bank of Serbia. In accordance with the planned distribution model for the banking sector, the initial portfolio of Banca Intesa was EUR 134 million. To this day, Banca Intesa fulfilled all conditions defined by the Guarantee Agreement and successfully applied for 4 maximum increases of the portfolio volume, so it currently has a maximum portfolio of EUR 234 million. Since the beginning of the implementation period, Banca Intesa placed over 5.300 loans under this facility, in the total amount of over EUR 220 million, reaching a market share of above 15%.

8. Asset Management and Investment Banking

- *The Bank continues to actively participate and support the development of the bond market and government fiscal policy*
- *Leading bank in terms of offering financial instruments for dinar and foreign currency liquidity management*
- *By using education and product promotion in a timely manner, the Bank strives to eliminate foreign exchange risk for its clients*

Further key policy rate reduction during 2020 and historically low interest rates in the Serbian money market resulted in a reduction of the yield on securities issued in the domestic market.

During 2020 the Ministry of Finance sold a total amount of RSD 284.8 billion of bonds denominated in domestic currency and EUR 353.9 million of bonds denominated in euros through primary auctions. Domestic bonds issued in euros in 2020 had initial maturities of 2 years, 5 years, 12 years and 20 years, while domestic bonds issued in dinars had initial maturities of 53-week (treasury bills), 2 years, 3 years and for the first time 5.5 years and 12.5 years. The realisation at these auctions equalled to 83% of total bonds issued in 2020.

In February 2020, the Republic of Serbia issued government bonds settling the liabilities of the Republic of Serbia based on unpaid foreign exchange savings deposited with banks headquartered in the territory of the Republic of Serbia and their branches in the territories of former SFRY republics, in accordance with the Law on the Settlement of the Public Debt of the Republic of Serbia on the Basis of Unpaid Foreign Exchange Savings Deposited with Banks Headquartered in the Territory of the Republic of Serbia and Their Branches in the Territories of Former SFRY Republics.

Republic of Serbia issued two Eurobonds on the international financial market during 2020. Being among the first in the group of countries whose credit rating is just below the investment grade, the Republic of Serbia entered the international financial market in May 2020. The issuance caused huge attention among investors, and the country successfully sold Eurobonds denominated in euros in the amount of EUR 2 billion with a coupon rate of 3.125%, a yield rate of 3.375% and a maturity of 7 years. This is another signal that investors have confidence in the Republic of Serbia, despite the crisis caused by the pandemic, which has affected the whole world and especially the financial markets. In that way, investors showed that the Republic of Serbia reacted well during the pandemic and that the Republic of Serbia adopted appropriate economic measures, which should help the economy to overcome this period and post economic growth in the future.

In December 2020, the Republic of Serbia successfully returned to the USD securities market, due to a new issu~~e~~ance and early redemption of Eurobonds issued in 2011 in USD, which were issued at a yield rate of 7.50%/6.625% and at a coupon rate of 7.25%.

The new ten-year Eurobonds were issued in the amount of USD 1.2 billion at a yield rate of 2.35%, a coupon rate of 2.125% denominated in euros, after the realisation of the hedging transaction, of 1.066%. Demand of over USD 6 billion was recorded, which is five times more than the offered value of the issuance. The proceeds from the new issuance were used for early repayment of USD 900 million of bonds issued and sold in 2011, of a total of USD 1.6 billion that mature in September 2021, which means that the value of the remaining bonds maturing on September 28, 2021 is USD 700 million.

During 2020, the Public Debt Administration organised sell-buy-back auctions and redeemed early bonds denominated in local currency on the domestic market in the amount of RSD 5.19 billion with initial maturity of 3 years maturing in January 2022 and RSD 5 billion bonds with initial maturity of 7 years, maturing in July 2023.

In comparison to 2019, the total turnover on the secondary market of government securities reached approximately the same level. Regarding activities in the secondary market, investors mainly concentrated on RSD bonds. Total turnover in both currencies (RSD and EUR) in the secondary market exceeded the amount of bonds sold in the primary auctions.

During 2020, Banca Intesa participated in primary auctions and secondary market of government securities of the Republic of Serbia for its own account and on behalf of its customers, actively supporting the development of this key segment of the bond market and government fiscal policy. Taking into consideration the interest rate decrease in the entire banking sector, the interest of domestic and institutional clients in investing in securities as an alternative to deposit operations, was maintained. In this regard, Banca Intesa applied a proactive approach in informing clients about the possibilities of investing in government securities and introduced its brokerage services to all interested institutional and individual investors.

During 2020, the Bank's portfolio remained diversified, so, apart from debt securities issued in the domestic market in the Republic of Serbia, it included dollar-denominated Eurobonds of the Republic of Serbia.

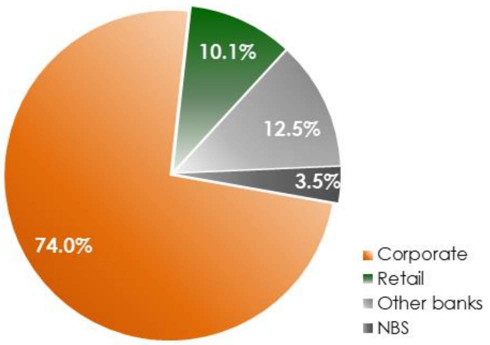
In 2020 Banca Intesa continued to be the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management. Currency swap contracts and dinar-denominated bonds of the Republic of Serbia are available to customers, primarily intended for investors who prefer to completely or partially hedge the foreign exchange risk.

Banca Intesa retained its leading position in foreign exchange trading operations, with a market share of 14.17% in 2020. The Bank provided the EUR-NET Exchange Rate to its clients, which applies in transactions through the Intesa Mobi application and Intesa On-line e-banking service and represents the most favourable exchange rate since it follows trends in the interbank foreign exchange market in real time. During 2020, the volume of EUR-NET transactions posted a significant increase of 22.29%

Table 1 – Foreign exchange trading (in EUR million)

	2013	2014	2015	2016	2017	2018	2019	2020
Corporate	3,058	2,772	2,915	3,340	3,567	4,012	4,418	**4,004**
Retail	242	229	226	321	379	431	492	**545**
Other banks	1,510	899	1,313	914	1,012	693	754	**676**
NBS	73	157	94	99	111	90	183	**187**
Total	4,883	4,057	4,548	4,674	5,069	5,226	5,847	**5,412**

Graph 21 – Customer shares in foreign exchange trading



The Bank continued to educate clients in the field of modern banking services, as well as to promote products that aim to enable timely management of financial risks in business, primarily the foreign exchange risk.

9. Highlights on CSR activities

Banca Intesa Beograd has not prepared the Consolidated Non financial statement as required by the Non Financial Information Legislation availing of the exemption introduced by the local regulation, as being a subsidiary undertaking which information are included in the Consolidated non financial statement presented by Intesa Sanpaolo S.p.A. Further details on the CSR strategies and activities undertaken by the Group and the Bank, are available at the *Sustainability section* of the Bank's website.

This Chapter as part of the Annual Report is developed in accordance with current Accounting Law ('Official Gazette of the Republic of Serbia', number 73/2019). Data presented in the report relate to the activities of Banca Intesa a.d. Beograd for the year 2020. This article contains an overview of the most relevant activities and results achieved by the Bank regrading its employees and toward environment and climate change during 2020.

Among other stakeholders, Banca Intesa identifies employees as key for the consolidation and continuing growth of the Bank. Thanks to their professionalism, their range of expertise and their growth paths, the people of Banca Intesa contribute to ensuring the excellent quality of customer services and the fulfilment of the Bank's goals. At the other hand, climate change is an extremely important phenomenon that is posing one of humanity's crucial challenges for the twenty-first century. A constant increase in temperatures due to the growing concentration of greenhouse gases in the atmosphere will lead to - and is already bringing about - consequences and repercussions not only for the planet's ecosystem, but also at a social and economical sustainability for present and future generations. Therefore, effectively tackling the causes of climate change and adapting to its impacts therefore requires a collective effort and a comprehensive and systemic view of the problem.

Employees

In 2020, the profound social changes and the abrupt change in social narratives caused by the pandemic further emphasized the importance of the agility of the banking industry. Taking into account the altered business routine and the emerging needs of the society and the financial markets, the Bank has, in the course of 2020, consolidated its plans, and adjusted its business model to the new circumstances, while confirming its responsibility for all its stakeholders. One of the aspects at the centre of these actions was the safety and wellbeing of Banca Intesa's employees.

Respecting the rights of employees, investing in the development of their professional qualifications and creating a work environment in which employees feel comfortable and motivated to contribute to the achievement of common goals is a strategic commitment of Banca Intesa.

All the procedures related to the HR management, in Banca Intesa are based on the principles guaranteed by the Code of Ethics and Code of Conduct, implying objectivity and consistent conduct in the process of candidate recruitment, as well as people management, remuneration policy and prevention of any kind of discrimination.

The foundation of the Bank's business success in 2020 lies in the synergy of diverse employee architecture and inclusive corporate culture[1] that sublimes knowledge and experience of both new colleagues, and more experienced ones.

Table 2 – Employees breakdown by category, gender and age

			2018			2019			2020	
Pozicija	**Starost**	**Muškarci**	**Žene**	**Ukupno**	**Muškarci**	**Žene**	**Ukupno**	**Muškarci**	**Žene**	**Ukupno**
Rukovodioci	***0-30***		1	1						
	31-50	19	12	31	18	15	33	19	15	34
	51-70	4	4	8	4	4	8	2	4	6
		23	**17**	**40**	**22**	**19**	**41**	**21**	**19**	**40**
Menadžeri	***0-30***	2	3	5		3	3		2	2
	31-50	134	173	307	135	180	315	137	175	312
	51-70	25	38	63	23	41	64	23	46	69
		161	**214**	**375**	**158**	**224**	**382**	**160**	**223**	**383**
Službenici	***0-30***	89	262	351	102	318	420	104	339	443
	31-50	460	1,415	1,875	450	1,433	1,883	440	1,398	1,838
	51-70	82	272	354	83	264	347	85	272	357
		631	**1,949**	**2,580**	**635**	**2,015**	**2,650**	**629**	**2,009**	**2,638**
Ukupno		**815**	**2,180**	**2,995**	**815**	**2,258**	**3,073**	**810**	**2,251**	**3,061**

Work environment

The first half of 2020 was characterized by the crisis linked to the spread of the COVID-19 pandemic. In the first days of crisis management, the Bank's priority was and has remained the protection of the employees' health.

The Bank approaches occupational health and safety issues in a responsible and systemic manner. With regards occupational health and safety since 2018 the Bank has adopted the ISP Rules for Occupational Health and Safety management systems in the International Subsidiary banks. This area is defined localy in the Collective Bargaining Agreement, the Rulebook on Occupational Health and Safety (OHS), and the Assessment of Risk at Workplaces and in the Working Environment of the Bank Act.

[1] Percentage of women hired in the last 24 months, compared to the total number of new employees hired in the same period is quite high - 72.6%. At the same time, percentage of women managers, including branch managers, compared to the total managers employed in Banca Intesa in 2020 (CEO excluded) is balanced (57.04%) and remain almost the same as in 2019 (57.11%).

Appointing an Officer for health and safety at work in 2007 was a first step undertaken by the Bank towards a new framework covering all activities associated with the system, in line with the parent company's strategy to implement management systems that are consistent with ISO 45001 international standard requirements.

During the COVID-19 pandemic period, Banca Intesa's Health and safety at work Officer was involved to develop OH&S regulations in agreement with the Intesa Sanpaolo Group, to manage the different modes of intervention according to the epidemiological spread of the epidemic, with standards shared at Group level, and appropriately customized in accordance with the laws of the country.

During the pandemic, Banca Intesa adjusted the working hours and working conditions of the branch offices to the measures passed by the Government of Serbia and the National bank of Serbia. At the same time, the Contact center capacities were doubled, to ensure additional client support. Within the Banca Intesa business network and for all of the colleagues whose presence at work was mandatory, hygienic and protective measures were raised to the highest level, along with the installation of Plexiglas panels, and regular disinfection of premises and ATMs. The number of clients entering a branch office was limited solely to the number of employees available for their assistance, preventive measures were clearly displayed, and the employees were supplied with personal protection equipment. In coordination with the Parent company, the majority of the employees, i.e. 90% of the cc 1,000 employees in the Bank's headquarters started working distantly in March.

Considering the situation caused by the pandemic and the importance of health & safety preconditions, this year for the first time, with support from the Parent Company, Banca Intesa provided all of its employees with a completely free, voluntary vaccination against seasonal flu. With the support of Parent ISBD Group and trough the International Healthcare Programme, in 2020 the Bank offered to employees with permanent contracts second medical opinions and/or medical treatment in centres of excellence in countries that are not their country of residence and/or workplace. The programme provides assistance in theevent of serious illnesses (i.e cancer, highly complex surgical procedures etc.), covers treatment and other complementary service costs (visa assistance, travel etc.), all transport and accommodation expenses in the foreign country, and reimburses all medical costs borne once back home.

During 2020, a total of 11 injuries at work were recorded. It represent sum of employees' injuries per event, occurred during the reference period, including both those occured during working hours (3) and when commuting (8). The injuries in 2020 decreased compared to the same period in 2019 (19) due to the fact that starting from March 2020, the large scale use of smart working reduced the physical presence in offices and work-home commutes. In 2020, Mandatory training on Operational Health&Safety was locally provided for all Banca Intesa employees.

Employee growth and development

During 2020, in total 35,867 of training days (classroom and distance learning) was conducted in Banca Intesa and there was 2,874 employees enrolled in training courses. Also, in total 24,193 of compulsory training hours were achieved during 2020.

A new, intuitive, flexible e-learning platform Apprendo, as extension of the Group's platform, was introduced in 2020 in Banca Intesa. On average, each employee attended 6 programs on the e-learning platform through 19 different e-learning programs.

In 2020, the Bank also organized, for the fourth time in the row, Intesa Junior program, providing graduates and final year students with no work experience, with the opportunity to acquire knowledge through a six-month internship. For 2020 program, Banca Intesa has choosed 6 juniors who will, through mentorship, gain their first work experience during 2020/2021.

Environment and climate change

In line with the approach of its Parent company, Banca Intesa manages direct and indirect impacts of the Bank according to Rules for Environmental Protection and Energy Efficiency, released by ISP in 2014 and adopted by Banca Intesa since March 2015. Also, the Bank implements other Group's environmental policies including Rules governing the sustainability in the organisation of communications events and training courses – distributed to the bank in June 2011, implemented in 2012. as well as Sustainability rules for the purchase and use of paper and derivative materials – distributed to the bank in 2011 and implemented in May 2012.

With regards to the commitment to reduce greenhouse gas (GHG) emissions generated by its activities or over which it has a partial control and the related actions, the Bank is involved in the Intesa Sanpaolo's Climate Change Action Plan (2018-2022), trough which the Bank has shown strong commitment to reduce greenhouse emmisions produced directly by the Bank by the optimisation of electricity consumption, reduction of gas consumption and replacement of the car fleet.

Since 2019, a local environment and energy referent has been appointed to strengthen the synergies and improve the coordination between the Group and the subsidiaries in the implementation of the environmental policies.

Active monitoring of resource consumption and the implementation of measures for their efficient use are the main ways in which Banca Intesa strives to minimize its direct environmental impacts.

Table 3 – Resource consumption

	2019	2020
Total water consumption (m3)	113,178	43,377
Paper purchased (ton)	347	213
Total energy consumption, kWh*	16,048,691	16,602,536
Energy from renewable Sources (% renewable electricity consumption vs total)	27.0%	27.0%

Total waste generated (ton)	2019	2020
Hazardous	24	23
Nonhazardous	68	17
Total	**92**	**40**

Since 2012 the focus of the Bank has been on reducing the paper waste by ensuring that all internal documents adopted by the Executive Board and Board of Directors are approved electronically. Furthermore, when organising events, the Bank sends invitations only electronically, both for the internal purposes and for external events. In 2020 the Bank redesigned digitalized version of the company magazine Espresso and continued with an active promotion of both-side printing, as well as black and white printing in all business processes.

When it comes to responsible financing, the Bank is com¬mitted to integrating social and environmental criteria in its business decisions in order to contribute to reducing adverse impacts its customers' operation may have on the environment, which was further reaffirmed by the adoption and application of the Rulebook on and Procedure for Social and Environmental Risk Management and the Procedure for the Implementation of the Equator Principles in Project Financing.

The Bank has acknowledged in October 2020 Intesa Sanpaolo Group's Guidelines for the Governance of Environmental, Social and Governance Risks Concerning Lending Operations and the Rules on Lending Operations in the Coal sector, for which it has started the implementation activities in collaboration with the Parent company. Furthermore, in December the local team was involved in the first training dedicated to the ESG risks that involved Intesa Sanpaolo's international subsidiaries.

The Bank's market commitment to investing in resolving acute environmental problems is illustrated by the EBRD credit line for the improvement of energy efficiency for corporate clients. During 2020, the Bank disbursed 42 of these loans, in the total amount of more than EUR 2 milion. Aiming to support reduce of the potential damage to farmers caused by bad weather conditions on crops, which are becoming more frequent due to global climate change, during 2020, the Bank disbursed 58 Agroprotekt loans with an insurance policy, in the total amount of more than EUR 200,000.

During 2020, the Banca Intesa did not have projects entering Equator principles scope that reached financial close.

As one of the founders of the local Network and after several years of active membership and contribution to the realization of the Sustainable Development Goals (SDGs), in December 2020 Banca Intesa became Board member of the National network of the United Nations Global Compact's in Serbia.

The Bank plays an active role in the communities in which it operates. The Code of Ethics draws attention to the requirements and needs of the community: this commitment consists of various activities, such as the promotion of solidarity initiatives with projects set up through partnerships, donations, the sponsorship of important cultural and social initiatives, and the protection and promotion of the historical, artistic and cultural heritage of both Italy and Serbia. In the year of the pandemic, Banca Intesa Beograd has set aside cc RSD 14 milions for monetary contribution to the community and directed it for the realization of different projects in the field public health (financial donation to the Republic Health Insurance Fund (RHIF) supporting the setup of a temporary Covid hospitals and several health institutions), culture and preservation of cultural heritage projects, as well as initiatives of social and educational significance.

In line with the long–term project and commitment, the Bank has continued supporting the creation of a stable financial mechanism of support for the Serbian Paralympic Committee providing them with more than RSD 2.8 million in 2020.

RESEARCH AND DEVELOPMENT ACTIVITIES

Customer satisfaction management

During 2020, despite the circumstances imposed by the global pandemic, the Bank remained committed to its customers, focused on providing high-quality services. Furthermore, an excellent customer experience is the basic postulate and essence of the programme Listening 100%, which began back in 2008. The goal of this programme, from the very beginning, was to constantly improve services and products and consequently achieve a high level of satisfaction and loyalty of the Bank's customers. This programme is based on a survey of customer satisfaction and experience, so, this year, regardless of the specific circumstances, activities in this area continued.

As in previous years, a scientifically proven model based on the European Customer Satisfaction Index Model (ECSI) was used to evaluate the level of customer satisfaction. This specific model, adapted to the banking sector, provides the possibility to check all aspects concerning the quality of service and customer satisfaction at different levels of the organisational structure. The obtained results confirmed the high indices of customer satisfaction and loyalty, as well as all accompanying indicators, in particular the Intention to recommend indicator (the so-called Net Promoter Score).

In addition, this model proved very successful if used for comparison with competitors in the domestic market, so this year the so-called Benchmarking survey was again conducted.

Owing to the gradual introduction and application of the Instant Feedback approach in the analysis of customer experience and consequent customer satisfaction, which began in 2016, this year the Bank included clients of the RPG segment in this type of survey. The specificity of this approach in assessing customer experience is reflected in the method of its implementation, primarily speed. Namely, the client is contacted immediately after the interaction with the Bank's employees, so that feedback is obtained while the experience is still "fresh", which consequently allows the Bank to react quickly in eliminating potential causes of dissatisfaction, but also improve the satisfaction of each individual client. In the forthcoming period, this type of survey will be applied to all customer segments through an improved comprehensive platform, with the aim of covering all relevant "touchpoints" between customers and the Bank. This will provide feedback at the individual level (direct contact with the client who participated in the survey and action based on the information provided), but also at the global level in terms of improving specific "touchpoints" that were the subject of research and ultimately improving services and products of the Bank as a whole.

As in the previous years, this year the Bank continued to work intensively on digitalisation and constant improvement of electronic banking services. While following the needs of its clients, it remained committed to improving the quality of service in the business network. Accordingly, a survey based on Mystery Shopper methodology continued. This survey is important, among other things, because it provides an opportunity for each branch to be considered as a separate entity, and based on the results, to initiate and implement activities that improve the quality of service and, consequently, directly affect experience and satisfaction of clients who visit those branches most often.

In addition to listening to customers' needs through their questions, suggestions, compliments, as well as complaints, with the aforementioned customer satisfaction surveys and user experience, this year Banca Intesa also received a large number of feedbacks from its clients. This feedback was the key to improving, enhancing and developing the Bank's products and services, as well as improving its communication strategy, business network development and employee training.

Product and service development

During 2020 the Bank's main development activities focused on the implementation of the DigiCal programme - a comprehensive digital platform in the Bank. The focus was on the usage of digital channels by individuals.

In order to further improve its services, the Bank has improved its ATM network through the introduction of multifunctional devices and new functions. Namely, in August Banca Intesa introduced cash-in feature on its ATMs. In addition, at year end the Bank implemented Dynamic Currency Conversion (DCC). During 2020, legal entities had the possibility to deposit cash via ATS network.

The Bank is developing the Smart Notification Engine (SNE) through integration with the DigiCal solution, enabling the delivery of statements, contractual and regulatory documentation, into a dedicated area within mobile and electronic banking applications.

The Bank supported the implementation of the regulatory project Instant Payments at the Merchant's Point of Sale. In 2020 instant payment was enabled within Intesa Mobi and Biz Mobi applications, allowing clients to make payments via a mobile application, while the transfer of funds from the client's account to the merchant's account is done within a few seconds. On the BizMobi application the distribution of foreign income and foreign exchange operations are enabled. Additionally, since the beginning of December, the Apple Pay service for VISA cards was introduced, while the implementation of this service for MasterCard holders is still in progress.

With the aim to enhance quality of its service, the Bank enabled for its merchants' instant payment on: IPS on e-commerce point of sale, IPS through a separate merchants' android application, on mobile phones, tablets or other mobile devices used by merchants – mPOS, providing also lower costs for merchants. Through this easy way of payment, Banca Intesa contributed to the support of non-cash payments via the already developed channels, and once again confirmed its role in digitalisation in the country.

10. Risk Management System

- *The credit portfolio quality continued to improve, while the NPL ratio decreased below the banking sector average*
- *Enhanced Risk Appetite Framework (CRA) was introduced defining the additional limits within which the Bank can operate considering risk-based portfolio clustering*
- *In accordance with the new situation, the Bank has successfully supported its clients through the promotion of working capital loans under the government support scheme, in order to optimise the Bank's collateral position and to minimise risks undertaken*
- *After the outbreak of COVID-19 pandemic and measures adopted to mitigate the negative consequences of the pandemic, the Bank was granted a 3-year postponement of compliance with MREL*

Banca Intesa continuously identifies, assesses, monitors and controls risks in compliance with the national and international banking, supervisory and accounting regulations, and ISP Group guidelines, providing an integrated, prudent and consistent risk management system. The Bank's Board of Directors established by its enactments an appropriate risk management and internal control system, which includes different corporate governance bodies and committees: – the Board of Directors, Executive Board, Audit Committee, Risk Management Committee, Problem Asset Committee (PAC), Credit Risk Governance Committee (CRGC), Assets and Liabilities Committee (ALCO), Operational Risk Committee (ORC) and Integrated Control Coordination Committee (ICCC). The functioning of the system is regulated by the policies and procedures adopted individually for each material risk type.

In order to maintain a system that complies with the highest quality standards and supports the decision-making process of governing bodies, during 2020 the risk management system was enhanced. This process continues to rely on the axioms of independence of the risk management function from risk-taking centres, promptness of information flows that support the decision-making process, as well as transparency and accuracy of submitted information.

Main objectives of the risk management process are related to the protection of the Bank's capital and its optimal allocation, increase in economic value for shareholders, monitoring of risk limits and/or risk measures for all identified risks. The existing system of limits, defined in the Risk Appetite Framework (RAF), gives the highest priority to the monitoring and controlling of minimum requirements related to capital adequacy, liquidity and operational risks. In addition, the RAF system covers credit concentration limits, limits of exposure to interest rate risk and funding limits. The indicators of profit stability, macroeconomic stability, credit quality and compliance and AML risks of the Bank represent additional RAF measures. One of the most important revisions of RAF in 2020, was the introduction of CRA (credit risk appetite) framework.

The Bank ensures the compliance of the strategic guidelines defined in the business strategy, capital plan, operating plan – budget and recovery plan, with the Bank's risk profile defined in the RAF system. The RAF limits also make an important part of the Internal Capital Adequacy Assessment Report, Stress Test Book and other strategic documents of the Bank.

SREP (Supervisory Review Evaluation Process) is a regular activity of the Supervisor performed according to Pillar 2 requirements of Basel Capital Accord (Basel 3). SREP report presents results of comprehensive risk assessment of a bank. The ultimate result of a SREP process is a specific requirement for additional capital buffer for a bank which should cover Pillar 2 risks and risks of all identified deficiencies in corporate governance, controls, information system, data quality and so forth.

COVID-19 pandemic and its consequences on the economic environment, business environment and the banking system as a whole, as well as the NBS measures implemented to mitigate the consequences of the pandemic, affected the changes of the NBS supervisory activities in 2020. The supervisory assessment was conducted as of 30 September 2020, focusing on the following areas:

- Corporate governance at the time of COVID-19 pandemic crisis,
- Financial position,
- Capital adequacy,
- Credit risk,
- Operational risk,
- Liquidity and funding risk,
- Other areas identified as relevant to a particular bank in the context of a pragmatic approach.

The supervisory assessment also included the assessment of the Bank's compliance with the recommendations for eliminating material deficiencies identified in the previous version of the Recovery Plan.

Having in mind the numerous uncertainties that burden the operations of Serbian banks in the conditions of the COVID-19 pandemic, the NBS decided to keep the total supervisory requirements for the banks' capital unchanged, i.e. at the level determined by the Decision on the Minimum Capital Adequacy Ratio, made on the basis of the previous supervisory assessment, conducted as of 31 December 2018. The last determined additional regulatory capital requirement, i.e. SREP rate for Banca Intesa ad Beograd was 1.75%.

In addition, the National Bank of Serbia decided to keep the supervisory assessments (overall and by individual areas) determined by the last year's assessment, as well as not to issue supervisory recommendations for the necessary qualitative improvements in the banks' operations.

Main conclusions of the supervisory assessment were the following:

- The Bank has successfully adapted its operations to the new situation caused by the COVID-19 pandemic and carried out activities in a timely manner in order to protect employees and clients from infection;
- The Bank managed to maintain a stable level of business results - achieved profitability indicators are above the banking sector average;
- Moderate growth in lending activity continued in 2020, which was partly stimulated by the guarantee scheme programme;
- In 2020, the credit portfolio quality continued to improve, while the NPL ratio decreased below the banking sector average;
- Liquidity indicators and the amount and structure of liquid assets are above the banking sector average, despite the decrease in cash inflows due to the introduction of deferrals in the repayment of clients' liabilities;
- In the first nine months of 2020, the Bank maintained the values of capital adequacy ratios above the comprehensive capital requirements.

The National Bank of Serbia issued two recommendations regarding the following:

- Since the amount of non-performing loans may increase in the coming period due to the increase in repayment delays, the NBS expects the Bank to ensure adequate monitoring of the quality of placements, and to react in a timely manner by using, among other things, incentives and reliefs prescribed by the NBS (extension of the maturity of cash loans and housing loans, rescheduling and refinancing of loans with a grace period, etc.), in order to assist the debtors who are temporarily impacted by the effects of the COVID-19 pandemic and prevent the occurrence of default.

- Given the significant increase of lawsuits related to loan approval fees and loan monitoring fees, the NBS expects the Bank to consider the calculation of internal capital requirements for legal risk in the next ICAAP process and to pay special attention to its exposure to this risk.

The AIRB Implementation project, whose aim is to develop and implement an advanced internal credit measurement system, is being conducted under the supervision of the Parent Bank. During the development, the models are subjected to the approval process comprised of several steps (formalised through pre-defined milestones), controlled by the ISP Foreign Banks Credit Risk Management Department (FBCRM). The Bank has already covered most of its credit portfolio by the internal credit rating system (corporates, small businesses, individuals, banks). The Bank is in last stages of development of LGD and EAD models, whose implementation will enable the Bank to have the full insight and apply for the approval by the supervisor to use models for regulatory purposes as well.

Risk management policies and procedures have been revised and updated for the purpose of their alignment with amendments to the domestic and international (EU) regulations, as well as the amended guidelines and policies of the Parent Group, recommendations/findings of the Bank's Internal Audit, Internal Validation and the National Bank of Serbia.

Credit risks

Credit risk is monitored on a number of levels: by assessing customers' creditworthiness prior to loan approval, monitoring regular settlement of their liabilities and creditworthiness during the whole credit lifecycle and also by collecting and managing due receivables.

During the year, the Bank performed regular monitoring and reporting activities, the annual review of internal acts regulating the credit risk area and activities related to supporting the governing bodies in the decision-making process. During 2020 the Bank introduced important improvements to the risk management system.

The Bank has significantly decreased non-performing loans. The NPL volume and ratio were reduced to historical low outperforming the levels expected and defined in the Credit Strategy, Budget and NPL plan. Non-performing loans were reduced from EUR 101 million to EUR 94 million, or by 6.9%. The NPL ratio was reduced from 3.05% to 2.53% or by 0.52 percentage points. NPL reduction was a result of consistent implementation of effective workout strategies (collection, transfer to off-balance, return of NPLs to performing loans, portfolio sale), improved credit approval and underwriting process, use of credit rating and early warning systems, as well as proactive management of deteriorated credit positions.

The Bank has introduced the Credit Risk Appetite (CRA) framework (as an integral part of the RAF) through setting new limits within which the Bank's business may be conducted. The main objectives/benefits of the CRA introduction are: optimised credit strategies considering CRA as an additional driver, effective risk-based credit management, enhanced monitoring of credit portfolio quality, harmonised Group framework for assessing credit risk. The CRA is applied to performing counterparties belonging to the regulatory segment Corporate. The idea is to divide clients into three clusters based on the Economic Value Added contribution to the Bank. Clients which bring positive EVA to the Bank, in both normal and stress conditions, are marked as "green". Clients which have positive EVA only in normal business conditions are classified in the "yellow" cluster. Clients with negative EVA are marked as "red". For green counterparties, there are no growth restrictions; for others, limits are set. In 2020, the Bank also introduced limit for total exposure on leveraged transactions.

During 2020 the Bank implemented Calendar Provisioning rules related to non-performing loans (NPL) in accordance with EU regulation. The regulation splits NPLs depending on their origination date. Non–performing loans originated before April 26, 2019 are in the scope of Pillar 2 methodology of Calendar Provisioning framework, while NPLs originated after April 26, 2019 belong to Pillar 1 methodology of Calendar Provisioning. For exposures belonging to Pillar 1 scope, the minimum loss coverage (MLC) is defined depending on the duration of NPL status and presence of collaterals.

If the impairment allowances are not sufficient to cover the prudential minimum loss coverage, the difference is to be directly deducted from CET1 capital. Methodology for Pillar 2 scope assumes similar approach by defining minimum coverage expectations (MCE) for non – performing loans.

The Bank has implemented regulatory changes issued by the National Bank of Serbia that came into force in 2020. In order to mitigate the negative consequences caused by the COVID-19 pandemic and preserve the stability of the financial system, the National Bank of Serbia adopted regulations during 2020 that introduce a temporary moratorium, i.e. a delay in repayment of corporate and retail exposures. In the context of preventing the negative effects of the pandemic, the NBS also adopted a decision on interim measures for banks in order to facilitate access of individuals to financing. In the part of the regulation that regulates the area of capital adequacy, the Bank implemented changes that came into force in March 2020. By meeting certain conditions, these changes enable the application of reduction factor for exposures in dinars to small and medium-sized enterprises. In this way, access to financing instruments for this segment of clients has been improved. The provisions relating to deductible items from the share capital have also been amended. Under certain conditions, refinancing or restructuring of exposures to private individuals approved till March 18, 2020, is exempted from forming a deductible item due to increase in total maturity.

Internal reassessment and monitoring of the value of real estate collaterals has been carried out. The Bank has performed internal reassessment and statistical monitoring of residential real estate. Internal appraiser determines the market, construction and liquidation value of the real estate by applying a “desk-top” model of revaluation to each individual real estate in the portfolio that is the subject of the revaluation. Statistical monitoring of the value of real estate collaterals is performed by applying the index of change in the value of real estate to the market value of residential real estate from the valuation of authorised appraisers. After quality controls, the final value of the property from statistical monitoring is adopted. Properties that do not pass controls are subject to revaluation by a certified appraiser. In addition to this, the Bank performed monitoring of commercial real estate collateral based on publicly available statistical data. The purpose of monitoring is to determine whether there is a significant impairment of the market value of the property that serves as collateral in Banca Intesa Beograd. If available data indicates that the value of the property may have declined materially relative to general market prices, properties are subject to revaluation by a certified appraiser.

Also, improvement of IT system for consolidated credit risk and financial reporting (Finrep and Corep) to the Parent Company has been conducted.

In addition, improvement of the first and second-level credit controls performed by the Credit Quality Monitoring and Control Office, Credit Portfolio Analysis and Administration Department and Rating Desk, has been performed.

During 2020 the Bank continued working on resolving recommendations of the National Bank of Serbia based on the diagnostic review of the Banca Intesa Corporate FIRB request, included in the Action Plan. Most of the recommendations relate to the methodological framework for model development and implementation, which was been implemented by updating internal regulations, and were resolved in 2019 and 2020. It is expected that the remaining findings will be resolved in January 2021. The main reason for initial postponement and longer time to complete those particular recommendations, is their dependence on the implementation of the new Core System completed in late 2019.

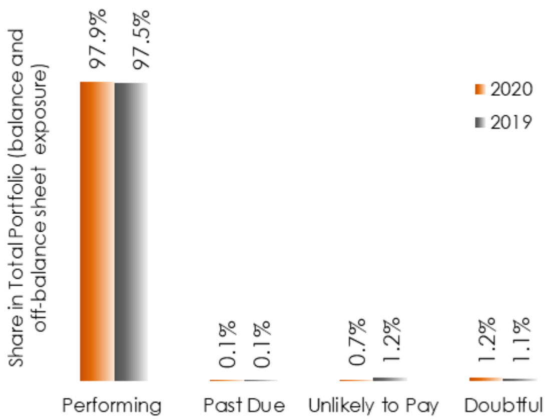
Within the RADAR project, aiming to align internal risk data aggregation and reporting systems with the BCBS standard 239 (Principles for Effective Aggregation and Risk Reporting), the most important risk processes and reports are documented through the completion of defined templates that show the connections between risk data. Data control system over data of significance for the calculation risk measures has been improved (RWA, expected loss, ratings, default status, IRB segmentation, RAF limits, ICAAP).

In 2020, Banca Intesa continued developing and updating its internal credit rating models for the purpose of converging to advanced credit risk measurement standards. Corporate PD model was calibrated and appropriate margins of conservatism (MoC) as PD add-on were calculated, in order to address the identified deficiencies in data or methodological choices during the estimated PDs values and to address the difference between the new and old default definition. The new SME Retail that replaced SB-DE model and re-developed master scale for PD Micro model were implemented in June 2020, after the stabilisation of the Constellation project. Re-estimation of PD Individuals model (keeping the current variables) was initiated in the second half of 2020 and will be completed during the first quarter of 2021. Rating assignment process for Specialised Lending is automated and embedded in the Bank's core application in November 2020. LGD and EAD Individuals models for performing clients were developed during 2020.

IFRS9 lifetime PD models were updated regularly in March and in June due to the COVID-19 pandemic. In December 2020, the IFRS9 lifetime PD models were updated using EBA coefficients instead of internal stress test models. The Bank will use EBA coefficients in the calculation of PD parameters until the update of internal stress test models is completed. Model for Registered Agricultural Households (developed in 2019) was validated by Banca Intesa Internal Validation, a positive opinion for the model used in credit process approval was received from ISP Validation in December 2020. The Bank was included in the development of the group-wide rating model for Corporate clients (turnover between EUR 50-500 million) initiated by Parent Company. These activities are related to the collection of customer data as well as the creation of certain financial indicators according to the submitted specification.

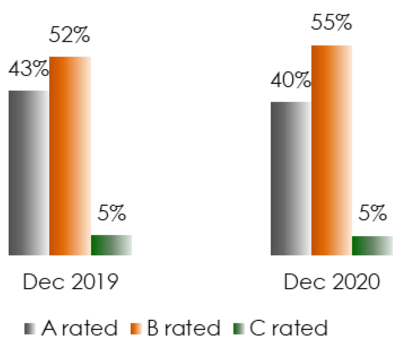
A new methodology for calculating Cost of Risk as a component of interest rates for loans to Corporate, SME and SB clients, was developed. The most important change in the new methodology is the use of Probability of Default (PD) for the purposes of IFRS9, including forward-looking elements in the PD estimation (macroeconomic conditioning), in order to consider the expectations of change of PD, linked to macroeconomic environments that can occur in the future years with respect to the reporting date. IFRS9 PD multiplied by LGD is used for calculating an estimation of average expected losses during the repayment period. The second relevant change in the new methodology is the inclusion of the Cost of Capital component through which unexpected losses are included in the final interest rate.

Graph 23 – Credit portfolio quality by class (balance and off-balance sheet exposure)

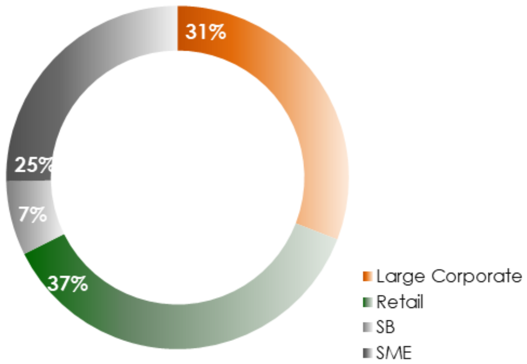


Apart from NPL reduction, the Bank also posted a large increase in new production. Credit portfolio growth was not achieved at the expense of higher credit risk. Low-risk clients account for 40%, medium-risk clients account for 55%, while high-risk clients account for 5% of all internally rated clients. If compared to the previous year, the share of exposure related to categories with good ratings (A and B) remained at almost the same level.

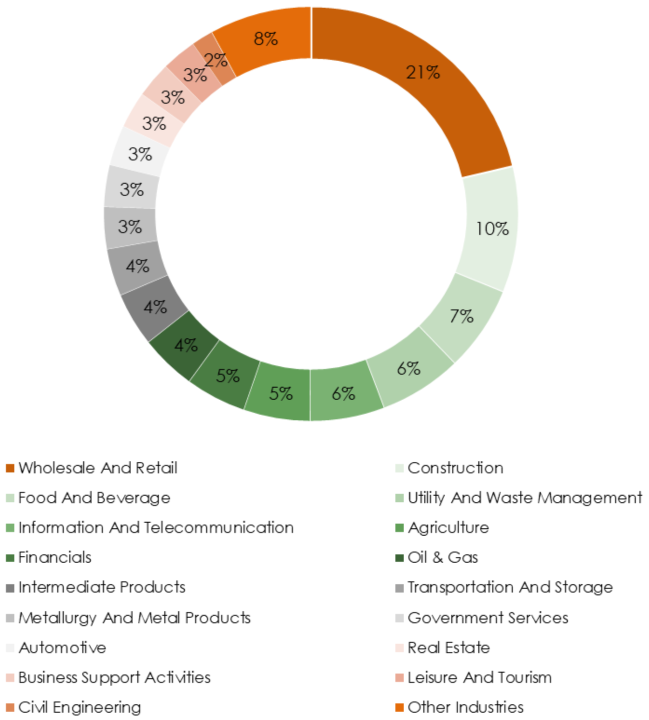
Graph 24 – Credit portfolio quality based on internal rating zones



Graph 25 – Portfolio distribution by segment



Graph 26 – Portfolio distribution by industry



Credit portfolio distribution by industry points to relatively good portfolio diversification. In accordance with the official industry classification (NACE), the largest portion of credit portfolio belongs to Wholesale and Retail (21%), Food and Beverage (10%) and Construction (7%).

During 2020, the Bank registered a breach of one Hard Limit which refers to operational risk. A large event in Q2 and Q3, which includes 7 smaller losses related to the procurement of protective equipment for COVID-19 prevention and 1 external fraud during the state of emergency due to the COVID-19 pandemic, were registered.

All relevant structures in the Bank and ISP Group were informed and no need for action plan was agreed. On December 31, 2020, in agreement with Parent Bank structures, this macro event was divided into several individual events. Therefore, at the end of 2020 this indicator was in line with the limit. Apart from residential mortgage LTV limit (breach in first four months of the year), all other specific limits that measure funding and credit concentration were stable and without breaches in 2020. Early warning indicators of credit quality, profitability and macroeconomic indicators were in accordance with the general economic situation, while the non-financial risk indicator measured by the number of complaints, petitions and appeals was breached in Q3 2020. Significant increase of complaints is related to several specific cases where the largest is the regulatory moratoria on loan repayments. Most of those complaints are without merit, but are included in the indicator based on the current definition. At the end of 2020, the indicator returned within the prescribed limit level. The Bank performance was in line with the regulatory limits defined by the National Bank of Serbia. Limit utilisation is monitored and reported on a regular basis to the business units, the Parent Group, and relevant corporate governance bodies.

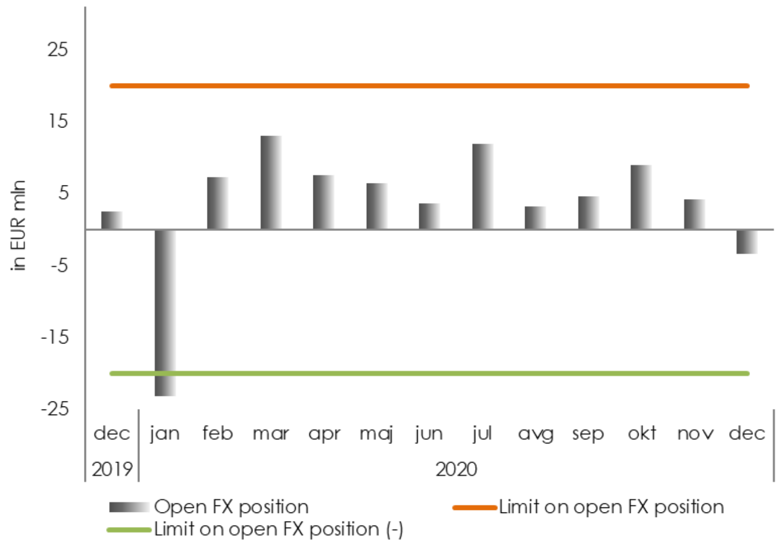
Market risks

The main sources of market risks to which the Bank is exposed in its operations are interest rate risk and foreign exchange risk.

General principles of market risk management are defined in accordance with regulatory rules, ISP Group standards, international best practices and standards, as well as internal acts. The system of market risk limits, defined in coordination with the Parent Group's relevant structures and approved by the Board of Directors, operationalises the market risk monitoring process. The system of limits is aligned with the strategic goals of the Bank, RAF system and regulatory requirements. Market risk limits utilisation is reported to the relevant functions of the Bank on a daily basis, while reporting to the ALCO is on a monthly level or more frequently, if necessary. The ALCO monitors market risk exposures on a strategic level and provides guidelines for general management of the Bank's balance sheet within its responsibility.

During 2020, the foreign exchange risk exposure was significantly below the maximum level prescribed by the regulator. Internally established limits for open foreign exchange position and foreign exchange Value at Risk were not revised. The FX position limits were breached on a few occasions (primarily due to the disbursement of the loan with FX clause and FX deal with a client) as a consequence of preapproved and agreed business actions requiring open FX position not to be closed immediately but in the short period of time.

Graph 27 – Trend of foreign exchange risk exposure



Regarding interest rate risk, the Trading Book was constantly within the defined limits for all risk measures: position, Value at Risk, duration.

As for the Banking Book, interest rate risk significantly increased in absolute terms but it was still below the prescribed limits throughout the year.

At the end of the first quarter of the year, interest rate risk went up significantly. The main reason for such increase was the introduction of three-month moratorium which was required by the National Bank of Serbia due to the COVID-19 crisis. The moratorium was applied on the majority of loans, which resulted in extending their duration. In the period from April to September 2020, the moratorium was applied twice. During both periods of moratorium measures, the increased duration of loans to customers had a huge impact on interest rate risk but the risk was still within the prescribed limits.

Besides that, the overall increase in interest rate risk was partially due to the application of a new methodology related to the expected loss effect in February 2020. Additionally, an increase in the position of floating rate loans to customers together with the increase in duration of fixed loans to customers caused negative effect on interest rate risk.

The interest rate risk principles applied in the monitoring process were revised through the updated Policy on IRRBB Management and implementation of new regulatory requirements and Intesa Sanpaolo Group requirements.

Graph 28 – Trend of interest rate risk exposure

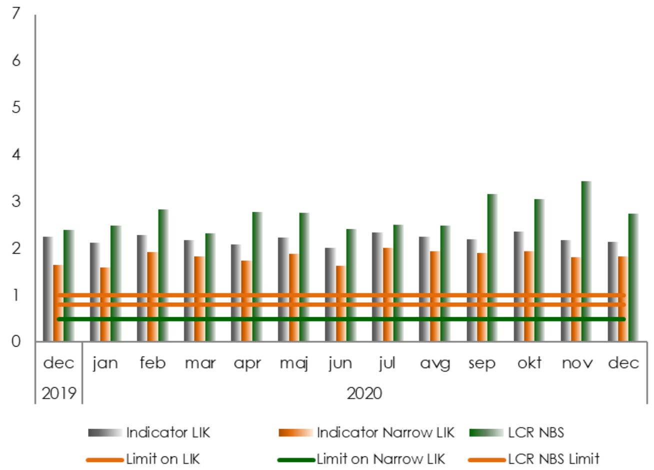
Liquidity risk

In the course of 2020, the liquidity level of Banca Intesa was above the minimum requirement. All the liquidity indicators, regulatory ones and those defined by the Group, were within the set limits at all times.

During the first quarter of 2020, the LCR ratio fell. The main reason for such deterioration was the implementation of a three-month moratorium on the majority of loans (imposed by local authorities due to the COVID-19 crisis) which affects overall liquidity. However, starting from April 2020, the LCR gradually rose (reaching the level three times higher than the limit) primarily because of increased deposits due to the financial aid provided by the Government of the Republic of Serbia during the COVID-19. The level of the LCR indicator measured according to local regulations was also affected by COVID-19, but its level was well above the regulatory limit.

Past experience demonstrated the importance of liquidity monitoring in stress situations, especially in these days caused by COVID-19. For that purpose, the annual SSM Liquidity Exercise was performed in accordance with ECB requirements. The Bank participated for the fourth time in the Group SSM (Single Supervisory Mechanism) Liquidity Exercise. Although the liquidity exercise was quite demanding and complex, it was successfully completed.

Graph 29 – Trend of regulatory liquidity indicators



Operational risks

Operational risk management is conducted in line with the methodology of the Parent Company, according to the model supported by appropriate IT solutions, enabling regular monitoring, assessment and reporting on operational risks.

Banca Intesa complies with the requirements related to the regulatory capital defined by the NBS and applies a standardised approach to the measurement of capital requirement for operational risk. The Risk Management Department regularly reports to the Operational Risk Committee, Executive Board, the Board of Directors and the Parent Company on operational risks and measures for their mitigation.

Operational risk identification, assessment and monitoring are undertaken through the process of collecting data on operational risks/losses and the process of assessment of exposure to operational risk. Data on operational risks/losses are analysed on a monthly basis, while the process of assessing the exposure to operational risk is carried out once a year, including a subjective assessment of operational risks for the period of 12 months. Various scenarios are analysed and the possibility and frequency of occurrence of operational risk are assessed, as well as the average and the worst possible loss in case of occurrence of each scenario. The process of operational risk exposure assessment also includes an evaluation of the business environment through an analysis of the level of risk factor management, identification of potential critical operational issues and mitigation actions proposed to reduce the operational risk exposure and ICT risk analysis, which applies to infrastructural services, IT governance, the Bank's applications, information security and business continuity.

By applying an advanced measurement model, the Parent Company calculates the level of expected and unexpected operational losses, i.e. the level of capital required to cover operational risks.

Operational risks in 2020 were at the similar level as previous year. The biggest operational risks appeared as a result of COVID-19, related to the procurement of protective equipment for COVID-19 prevention (gloves, protective eyeglasses, masks, biocidal wipes, hand sanitizer) during the state of emergency.

In the latest assessment of exposure to operational risk for 2021, it was estimated that expected losses are much higher than in the previous year. This is mostly related to the expected increase in the number of lawsuits related to increased number of allegedly unlawfully charged NKOSK insurance policy premium, NKOSK fee and loan approval fee.

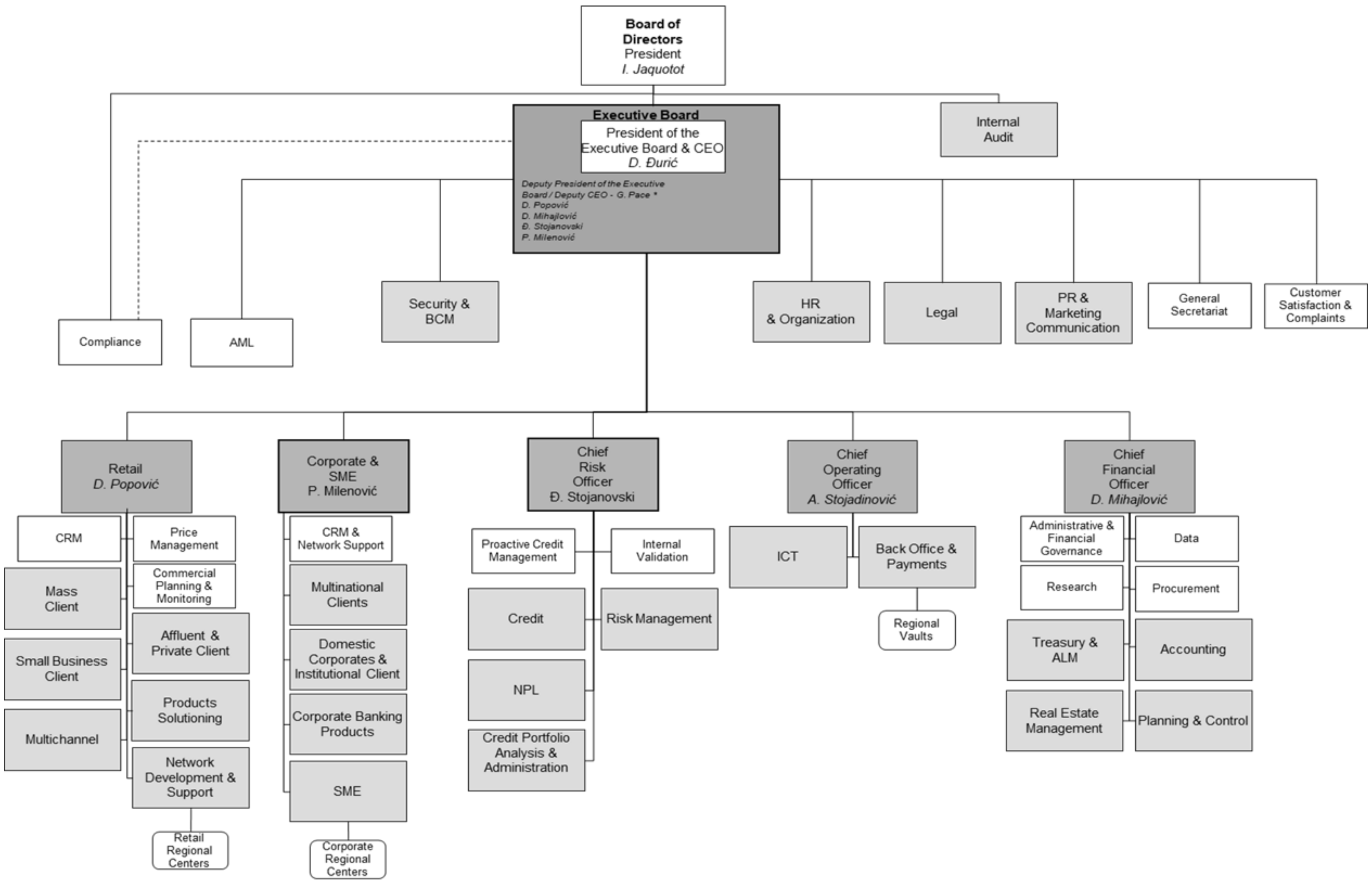
Operational risk management system is upgraded with the revision of Key Risk Indicators. It is an early warning system for operational risk that should support a timely identification of increased operational risk and allow preventive actions that could mitigate identified risks.

During 2020, the operational risk function got a more prominent role in ICT and IT security assessments during the Self-Diagnosis process. This includes the setup, communication with the technical functions for assessing and monitoring of mitigation actions.

11. Events after the Reporting Period

There have been no significant events after the reporting period, which would require disclosures in the Notes to the Financial Statements of the Bank as of and for the year ended 31 December 2020.

12. Organisational Chart



Responsible for area under the authority of Chief Financial Officer, Chief Risk Officer, and Chief Operating Officer and for Security and Business Continuity Management Department, as well as for Project Management in terms of strategic projects.

13. Branch Network

Location	Name of the branch	Regional centre	Address
Ada	**Ada, Vuka Karadžića 18**	Novi Sad	Vuka Karadžića 18
Aleksandrovac	**Aleksandrovac, 29. Novembra bb**	Niš	29. Novembra bb
Aleksinac	**Aleksinac, Knjaza Miloša 115**	Niš	Knjaza Miloša 115
Apatin	**Apatin, Petefi Šandora 2**	Novi Sad	Petefi Šandora 2
Arandjelovac	**Aranđelovac, Knjaza Miloša 192**	Kragujevac	Knjaza Miloša 192
Arilje	**Arilje, Stevana Čolovića 2**	Kragujevac	Stevana Čolovića 2
Bačka Palanka	**Bačka Palanka, Žarka Zrenjanina 80**	Novi Sad	Žarka Zrenjanina 80
Bačka Topola	**Bačka Topola, Glavna 29**	Novi Sad	Glavna 29
Bački Petrovac	**Bački Petrovac, Maršala Tita 4**	Novi Sad	Maršala Tita 4
Bajina Bašta	**Bajina Bašta, Svetosavska 19a**	Kragujevac	Svetosavska 19a
Batajnica	**Zemun, Batajnica, Majke Jugovića 1**	Beograd	Majke Jugovića 1
Bečej	**Bečej, Novosadska 2**	Novi Sad	Novosadska 2
Beočin	**Beočin, Trg Cara Lazara 8**	Novi Sad	Trg Cara Lazara 8
Beograd	**Čukarica, Požeška 128**	Beograd	Požeška 128
Beograd	**Čukarica, Požeška 45**	Beograd	Požeška 45
Beograd	**Čukarica, Trgovačka 15**	Beograd	Trgovačka 15
Beograd	**Novi Beograd, Bulevar Arsenija Čarnojevića 54**	Beograd	Bulevar Arsenija Čarnojevića 54
Beograd	**Novi Beograd, Bulevar maršala Tolbuhina 34**	Beograd	Bulevar maršala Tolbuhina 34
Beograd	**Novi Beograd, Jurija Gagarina 14**	Beograd	Jurija Gagarina 14
Beograd	**Novi Beograd, Jurija Gagarina 36b**	Beograd	Jurija Gagarina 36b
Beograd	**Novi Beograd, Milentija Popovića 7b**	Beograd	Milentija Popovića 7b
Beograd	**Novi Beograd, Milentija Popovića 7v**	Beograd	Milentija Popovića 7v
Beograd	**Novi Beograd, Milutina Milankovića 134g**	Beograd	Milutina Milankovića 134g
Beograd	**Novi Beograd, Nedeljka Gvozdenovića 24a**	Beograd	Nedeljka Gvozdenovića 24a
Beograd	**Novi Beograd, Omladinskih brigada 90**	Beograd	Omladinskih brigada 90
Beograd	**Novi Beograd, Otona Župančića 1**	Beograd	Otona Župančića 1
Beograd	**Novi Beograd, Partizanske avijacije 14**	Beograd	Partizanske avijacije 14
Beograd	**Palilula, 27. marta 23**	Beograd	27. marta 23
Beograd	**Palilula, Borča, Ivana Milutinovića 73**	Beograd	Ivana Milutinovića 73
Beograd	**Palilula, Marjane Gregoran 60**	Beograd	Marjane Gregoran 60
Beograd	**Rakovica, Miška Kranjca br. 12**	Beograd	Miška Kranjca br. 12
Beograd	**Rakovica, Vidikovački venac 80b**	Beograd	Vidikovački venac 80b
Beograd	**Rakovica, Vukasovićeva 50a**	Beograd	Vukasovićeva 50a
Beograd	**Savski Venac, Nemanjina 4**	Beograd	Nemanjina 4
Beograd	**Savski Venac, Vase Pelagića 48b**	Beograd	Vase Pelagića 48b
Beograd	**Stari Grad, Cara Dušana 50**	Beograd	Cara Dušana 50
Beograd	**Stari Grad, Džordža Vašingtona 8**	Beograd	Džordža Vašingtona 8
Beograd	**Stari Grad, Knez Mihailova 30**	Beograd	Knez Mihailova 30
Beograd	**Stari Grad, Kolarčeva 5**	Beograd	Kolarčeva 5
Beograd	**Stari Grad, Studentski trg 7**	Beograd	Studentski trg 7
Beograd	**Surčin, Vojvođanska 85**	Beograd	Vojvođanska 85
Beograd	**Voždovac, Banjica, Crnotravska 7-9**	Beograd	Crnotravska 7-9
Beograd	**Voždovac, Braće Jerković 137b**	Beograd	Braće Jerković 137b
Beograd	**Voždovac, Kumodraška 174**	Beograd	Kumodraška 174
Beograd	**Voždovac, Ustanička 69**	Beograd	Ustanička 69
Beograd	**Voždovac, Vojvode Stepe 77**	Beograd	Vojvode Stepe 77
Beograd	**Vračar, Bore Stankovića 9**	Beograd	Sarajevska 31
Beograd	**Vračar, Bulevar oslobođenja 3**	Beograd	Bulevar oslobođenja 3
Beograd	**Vračar, Južni Bulevar 84**	Beograd	Južni Bulevar 84
Beograd	**Vračar, Kneza Miloša 23**	Beograd	Kneza Miloša 23
Beograd	**Vračar, Kursulina 41**	Beograd	Kursulina 41
Beograd	**Zvezdara, Bulevar Kralja Aleksandra 330**	Beograd	Bulevar Kralja Aleksandra 330

Location	Name of the branch	Regional centre	Address
Beograd	**Zvezdara, Bulevar Kralja Aleksandra 79**	Beograd	Bulevar Kralja Aleksandra 79
Beograd	**Zvezdara, Mirijevski venac 23**	Beograd	Mirijevski venac 23
Bogatić	**Bogatić, Vojvode Stepe 35**	Kragujevac	Vojvode Stepe 35
Bor	**Bor, Đorđa Vajferta 3**	Niš	Đorđa Vajferta 3
Brus	**Brus, Kralja Petra I bb**	Niš	Kralja Petra I bb
Bujanovac	**Bujanovac, Karađorđa Petrovića 111**	Niš	Karađorđa Petrovića 111
Čačak	**Čačak, Kuželjeva 1**	Kragujevac	Kuželjeva 1
Despotovac	**Despotovac, Despota Stefana Lazarevića 50**	Niš	Despota Stefana Lazarevića 50
Gornji Milanovac	**Gornji Milanovac, Vojvode Milana 1**	Kragujevac	Vojvode Milana 1
Inđija	**Inđija, Novosadska 21**	Novi Sad	Novosadska 21
Ivanjica	**Ivanjica, Majora Ilića 1**	Kragujevac	Majora Ilića 1
Jagodina	**Jagodina, Kneza Lazara 5-6**	Niš	Kneza Lazara 5-6
Kanjiža	**Kanjiža, Glavna 3**	Novi Sad	Glavna 3
Kikinda	**Kikinda, Braće Tatića 16**	Novi Sad	Braće Tatića 16
Kladovo	**Kladovo, 22. septembra 9**	Niš	22.septembra 9
Kostolac	**Kostolac, Nikole Tesle 5-7**	Niš	Nikole Tesle 5-7
Kovačica	**Kovačica, Maršala Tita 31a**	Novi Sad	Maršala Tita 31a
Kovin	**Kovin, Cara Lazara 73**	Novi Sad	Cara Lazara 73
Kragujevac	**Kragujevac, Kralja Aleksandra I Karađorđevića 120**	Kragujevac	Kralja Aleksandra I Karađorđevića 120
Kragujevac	**Kragujevac, Kralja Petra I 19**	Kragujevac	Kralja Petra I 19
Kragujevac	**Kragujevac, Save Kovačevića 12 b**	Kragujevac	Save Kovačevića 12 b
Kraljevo	**Kraljevo, Trg Jovana Sarića 8**	Kragujevac	Trg Jovana Sarića 8
Kruševac	**Kruševac, Vece Korčagina 18**	Kragujevac	Vece Korčagina 18
Kruševac	**Kruševac, Vidovdanska 4**	Kragujevac	Vidovdanska 4
Kučevo	**Kučevo, Trg Veljka Dugoševića 2**	Niš	Trg Veljka Dugoševića 2
Kula	**Kula, Maršala Tita 242**	Novi Sad	Maršala Tita 242
Lajkovac	**Lajkovac, Vojvode Mišića 84**	Kragujevac	Vojvode Mišića 84
Lazarevac	**Lazarevac, Karađorđeva 41**	Kragujevac	Karađorđeva 41
Leskovac	**Leskovac, Trg Revolucije 7**	Niš	Trg Revolucije 7
Loznica	**Loznica, Trg Vuka Karadžića bb**	Kragujevac	Trg Vuka Karadžića bb
Ljig	**Ljig, Vojvode Mišića 12**	Kragujevac	Vojvode Mišića 12
Ljubovija	**Ljubovija, Vojvode Mišića 44**	Kragujevac	Vojvode Mišića 44
Mionica	**Mionica, Dr. Jove Aleksića bb**	Kragujevac	Dr. Jove Aleksića bb
Mladenovac	**Mladenovac, Kralja Petra I 217**	Kragujevac	Kralja Petra I 217
Negotin	**Negotin, Trg Đorđa Stanojevića 70/II**	Niš	Trg Đorđa Stanojevića 70/II
Niš	**Niš, Bulevar Nemanjića 28-32**	Niš	Bulevar Nemanjića 28-32
Niš	**Niš, Milojka Lešjanina 1**	Niš	Milojka Lešjanina 1
Niš	**Niš, Nade Tomić 8a**	Niš	Nade Tomić 8a
Niš	**Niš, Obrenovićeva 82 (Fontana)**	Niš	Obrenovićeva 82 (Fontana)
Niš	**Niš, Sinđelićev trg 18**	Niš	Sinđelićev trg 18
Niš	**Niš, Vizantijski bulevar 78**	Niš	Vizantijski bulevar 78
Novi Bečej	**Novi Bečej, Trg Oslobođenja 5**	Novi Sad	Trg Oslobođenja 5
Novi Pazar	**Novi Pazar, AVNOJ-a 6**	Kragujevac	AVNOJ-a 6
Novi Sad	**Novi Sad, Bulevar Cara Lazara 79a**	Novi Sad	Bulevar cara Lazara 79a
Novi Sad	**Novi Sad, Bate Brkića 10a**	Novi Sad	Bate Brkića 10a
Novi Sad	**Novi Sad, Bulevar Mihajla Pupina 4**	Novi Sad	Bulevar Mihaila Pupina 4
Novi Sad	**Novi Sad, Bulevar Oslobođenja 8-10**	Novi Sad	Bulevar Oslobođenja 8-10
Novi Sad	**Novi Sad, Bulevar Oslobođenja 76a**	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	**Novi Sad, Fruškogorska 10**	Novi Sad	Fruškogorska 10
Novi Sad	**Novi Sad, Rumenačka 33**	Novi Sad	Rumenačka 33
Novi Sad	**Novi Sad, Zmaj Jovina 15**	Novi Sad	Zmaj Jovina 15
Obrenovac	**Obrenovac, Miloša Obrenovića 133-135**	Kragujevac	Miloša Obrenovića 133-135

Location	Name of the branch	Regional centre	Address
Pančevo	**Pančevo, Karađorđeva 2-4**	Novi Sad	Karađorđeva 2-4
Pančevo	**Pančevo, Miloša Crnjanskog 1**	Novi Sad	Štrosmajerova 1
Paraćin	**Paraćin, Kralja Petra I 4**	Niš	Kralja Petra I 4
Petrovac na Mlavi	**Petrovac na Mlavi, Bate Bulića 37**	Niš	Bate Bulića 37
Pirot	**Pirot, Branka Radičevića 18**	Niš	Branka Radičevića 18
Požarevac	**Požarevac, Trg Radomira Vujovića 8**	Niš	Trg Radomira Vujovića 8
Požega	**Požega, Knjaza Miloša 6**	Kragujevac	Knjaza Miloša 6
Priboj	**Priboj, Nemanjina 48-50**	Kragujevac	Nemanjina 48-50
Prijepolje	**Prijepolje, Sandžačkih brigada 39**	Kragujevac	Sandžačkih brigada 39
Prokuplje	**Prokuplje, 9. oktobra 6**	Niš	9. oktobra 6
Raška	**Raška, Miluna Ivanovića 8**	Kragujevac	Miluna Ivanovića 8
Ruma	**Ruma, Glavna 170**	Novi Sad	Glavna 170
Ruma	**Ruma, 15. maja 143**	Novi Sad	15. maja 143
Senta	**Senta, Zlatne grede 6**	Novi Sad	Zladne grede 6
Sjenica	**Sjenica, Milorada Jovanovića bb**	Kragujevac	Milorada Jovanovića bb
Smederevo	**Smederevo, Cvijićeva 3**	Niš	Cvijićeva 3
Smederevska Palanka	**Smederevska Palanka, Svetog Save 19**	Kragujevac	Svetog Save 19
Sombor	**Sombor, Venac Stepe Stepanovića 32**	Novi Sad	Venac Stepe Stepanovića 32
Srbobran	**Srbobran, Zmaj Jovina 18**	Novi Sad	Zmaj Jovina 18
Sremska Mitrovica	**Sremska Mitrovica, Kralja Petra I 6**	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	**Sremska Mitrovica, Svetog Dimitrija 2**	Novi Sad	Svetog Dimitrija 2
Stara Pazova	**Stara Pazova, Ćirila i Metodija 2**	Novi Sad	Ćirila i Metodija 2
Subotica	**Subotica, Dimitrija Tucovića 2**	Novi Sad	Dimitrija Tucovića 2
Subotica	**Subotica, Štrosmajerova 6**	Novi Sad	Štrosmajerova 6
Surdulica	**Surdulica, Ulica Kralja Petra I bb**	Niš	Kralja Petra I bb
Svilajnac	**Svilajnac, Svetog Save 52**	Niš	Svetog Save 52
Šabac	**Šabac, Gospodar Jevremova 44**	Kragujevac	Gospodar Jevremova 44
Šid	**Šid, Karađorđeva 11-13**	Novi Sad	Karađorđeva 11-13
Temerin	**Temerin, Novosadska 403**	Novi Sad	Novosadska 403
Titel	**Titel, Mihajla Krestića 8a**	Novi Sad	Mihaila Krestića 8a
Topola	**Topola, Tomislava Karađorđevića 3**	Kragujevac	Tomislava Karađorđevića 3
Trstenik	**Trstenik, Cara Dušana bb**	Kragujevac	Cara Dušana bb
Ub	**Ub, Kralja Petra I 44**	Kragujevac	Kralja Petra I 44
Užice	**Užice, Dimitrija Tucovića 129**	Kragujevac	Dimitrija Tucovića 129
Valjevo	**Valjevo, Karađorđeva 71**	Kragujevac	Karađorđeva 71
Valjevo	**Valjevo, Železnička 7**	Kragujevac	Železnička 7
Velika Plana	**Velika Plana, Momira Gajića br 2**	Kragujevac	Momira Gajića br 2
Veliko Gradište	**Veliko Gradište, Kneza Lazara 35**	Niš	Kneza Lazara 35
Veternik	**Veternik, Kralja Petra I 7a**	Novi Sad	Kralja Petra I 7a
Vladičin Han	**Vladičin Han, Svetosavska 16a**	Niš	Svetosavska 16a
Vlasotince	**Vlasotince, Nemanjina 2**	Niš	Nemanjina 2
Vranje	**Vranje, Lenjinova bb**	Niš	Lenjinova bb
Vrbas	**Vrbas, Maršala Tita 66**	Novi Sad	Maršala Tita 66
Vrnjačka Banja	**Vrnjačka Banja, Kruševačka 1**	Kragujevac	Kruševačka 1
Vršac	**Vršac, Sterijina 19a**	Novi Sad	Sterijina 19a
Zaječar	**Zaječar, Nikole Pašića 70**	Niš	Nikole Pašića 70
Zemun	**Zemun, Glavna 30**	Beograd	Glavna 30
Zemun	**Zemun, Gornjogradska 38**	Beograd	Gornjogradska 38
Zlatibor	**Zlatibor, Kraljev trg bb**	Kragujevac	Kraljev trg bb
Zrenjanin	**Zrenjanin, Kralja Aleksandra I Karađorđevića bb**	Novi Sad	Kralja Aleksandra I Karađorđevića bb
Žabalj	**Žabalj, Nikole Tesle 47**	Novi Sad	Nikole Tesle 47