VOJVOĐANSKA BANKA A.D., NOVI SAD

Separate Financial Statements
Year Ended December 31, 2020 and
Independent Auditors' Report

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INDEPENDENT AUDITOR'S REPORT

To the Owner and Management of Vojvođanska banka a.d., Novi Sad

Opinion

We have audited the Separate financial statements of Vojvođanska banka a.d., Novi Sad (hereinafter: the "Bank"), which comprise the Separate statement of financial position as at December 31, 2020, and the Separate income statement, Separate statement of other comprehensive income, Separate statement of changes in equity and Separate statement of cash flows for the year then ended, and notes to the Separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Separate financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards in keeping with the Law on Banks and the bylaws of the National Bank of Serbia governing the financial reporting of banks.

Basis for Opinion

We conducted our audit in accordance with the standards on auditing applicable in the Republic of Serbia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Separate Annual Business Report other than the Separate financial statements and the auditor's report thereon. Our opinion on the Separate financial statements does not cover the other information.

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. With regard to the Annual Business Report, we have performed procedures prescribed by the Law on Accounting of the Republic of Serbia. Those procedures include verifying whether the Annual Business Report is formally prepared in accordance with the Law on Accounting of the Republic of Serbia.

Based on the procedures performed, to the extent we are able to assess this, we report that:

1. The information presented in the Bank's Separate Annual Business Report for 2020 is consistent, in all material respects, with the accompanying Separate financial statements for the year ended December 31, 2020.
2. The accompanying Separate Annual Business Report for 2020 is prepared in accordance with the Law on Accounting of the Republic of Serbia.

Based on our knowledge and understanding of the Bank and its environment acquired during our audit, we have not determined that there is any material misstatement in the Separate Annual Business Report.

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

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

In preparing the 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.

INDEPENDENT AUDITOR'S REPORT

To the Owner and Management of Vojvođanska banka a.d., Novi Sad (Continued)

Auditor's Responsibilities for the Audit of the 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 standards of auditing applicable in Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Separate financial statements.

As part of an audit in accordance with Standards of Auditing applicable in Serbia, we exercise professional judgment and maintain professional skepticism 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 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 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.

Other Matter

As disclosed in Note 2.1 to the financial statements, the Bank is a parent entity and its consolidated financial statements prepared in accordance with International Financial Reporting Standards have been issued separately. The Bank's consolidated financial statements as of and for the year ended December 31, 2020, have been audited by us, and, in our auditors' report dated March 17, 2021, we expressed an unqualified opinion thereon.

Belgrade, march 17, 2021

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Olivera Andrijašević
Certified Auditor
and on behalf of Deloitte d.o.o., Beograd

SEPARATE INCOME STATEMENT
Year Ended December 31, 2020
(Thousands of RSD)

	Note	Year Ended December 31, 2020	Year Ended December 31, 2019
Interest income	3.1(a), 4	7,948,644	6,818,900
Interest expenses	3.1(a), 4	(786,982)	(920,969)
Net interest income		**7,161,662**	**5,897,931**
Fee and commission income	3.1(b), 5	3,259,153	2,669,913
Fee and commission expenses	3.1(b), 5	(619,497)	(557,784)
Net fee and commission income		**2,639,656**	**2,112,129**
Net (losses)/gains on changes in the fair value of financial instruments	3.1(c), 6	(108,713)	116,292
Net losses on derecognition of the financial instruments measured at fair value	7	(1,092)	(43,173)
Net gains on risk hedging	3.1(d), 8	7,334	7,387
Net foreign exchange gains and positive currency clause effects	3.2, 9	527,825	356,452
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.3(g), 10	(3,311,604)	(833,352)
Net gains/(losses) on derecognition of the financial assets measured at amortized cost	3.3(e,f), 11	137,063	(313,424)
Other operating income	12	371,139	309,071
TOTAL OPERATING INCOME, NET		**7,423,270**	**7,609,313**
Salaries, salary compensations and other personnel expenses	13	(3,324,178)	(2,783,653)
Depreciation and amortization charge	3.14, 14	(982,244)	(764,703)
Other income	15	190,872	6,489,822
Other expenses	16	(4,534,150)	(4,655,038)
(LOSS)/PROFIT BEFORE TAX		**(1,226,430)**	**5,895,741**
Current income tax expenses	3.24 (a), 17	-	(48,900)
Deferred tax gains	3.24 (c), 17	46,975	136,029
(LOSS)/PROFIT AFTER TAX		**(1,179,455)**	**5,982,870**
RESULT FOR THE YEAR - (LOSS)/PROFIT		**(1,179,455)**	**5,982,870**

Notes on the following pages form an integral part
of these Separate financial statements.

These Separate financial statements were approved by the Executive Board of Vojvođanska banka a.d., Novi Sad on March 16, 2021.

Milan Kojić
Member of the Executive Board;
Preparer of the Financial Statements

Predrag Vasić
Chairman of the Executive Board

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2020
(Thousands of RSD)

	2020	2019
RESULT FOR THE YEAR - (LOSS)/PROFIT	**(1,179,455)**	**5,982,870**
Components of other comprehensive income that cannot be reclassified to the profit or loss:		
Actuarial gains	1,727	27,992
Components of other comprehensive income that can be reclassified to the profit or loss:		
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI)	1,541	91,692
Tax expense relating to other comprehensive income for the year	(482)	(26,956)
Total positive other comprehensive income for the year	2,786	92,728
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR	**(1,176,669)**	**6,075,598**

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Predrag Vasić
Chairman of the Executive Board

SEPARATE STATEMENT OF FINANCIAL POSITION
As of December 31, 2020
(Thousands of RSD)

	Note	December 31, 2020	December 31, 2019
ASSETS			
Cash and balances held with the central bank	3.9, 18,44	33,251,589	40,303,963
Pledged financial assets	19	1,494,796	621,223
Receivables under derivative financial instruments	3.6, 20	29,921	9,452
Securities	3.5, 21	17,228,522	13,581,962
Loans and receivables due from banks and other financial institutions	3.4, 22, 44	4,955,868	6,343,310
Loans and receivables due from customers	3.4, 23	169,993,155	141,602,332
Investments in subsidiaries	3.11, 24	441,416	441,416
Intangible assets	3.12, 25	641,087	635,666
Property, plant and equipment	3.13, 26	9,355,003	9,522,112
Investment property	3.15, 27	150,125	162,208
Current tax assets	37	40,464	-
Deferred tax assets	3.24(v), 28	400,041	350,700
Non-current assets held for sale and discontinued operations	3.16, 29	6,164	3,372
Other assets	30	1,193,332	1,470,861
TOTAL ASSETS		**239,181,483**	**215,048,577**
LIABILITIES AND EQUITY			
Liabilities under derivative financial instruments	3.6, 32	160,724	45,490
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.7, 33	49,710,118	42,443,116
Deposits and other liabilities due to customers	3.7, 34	153,111,844	136,668,674
Subordinated liabilities	35	1,177,041	-
Provisions	3.19,36	1,544,219	1,291,467
Current tax liabilities	3.24(a), 37	-	48,900
Deferred tax liabilities	3.24(v), 28	514,891	512,044
Other liabilities	3.8, 38	2,296,938	2,196,509
TOTAL LIABILITIES		**208,515,775**	**183,206,200**
Share capital	3.20, 39	34,171,370	34,171,370
Profit	3.20, 39	-	5,982,870
Loss	3.20, 39	(3,694,657)	(8,498,072)
Reserves	3.20, 39	188,995	186,209
TOTAL EQUITY		**30,665,708**	**31,842,377**
TOTAL LIABILITIES AND EQUITY		**239,181,483**	**215,048,577**

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SEPARATE STATEMENT OF CASH FLOWS
Year Ended December 31, 2020
(Thousands of RSD)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from operating activities	**11,046,584**	**10,834,475**
Interest receipts	6,176,916	6,374,193
Fee and commission receipts	3,287,108	2,682,446
Receipts of other operating income	1,460,414	1,776,707
Dividend receipts and profit sharing	122,146	1,129
Cash outflows from operating activities	**(10,002,788)**	**(9,642,005)**
Interest payments	(808,429)	(880,351)
Fee and commission payments	(763,284)	(749,133)
Payments to, and on behalf of employees	(3,492,012)	(3,066,608)
Taxes, contributions and other duties paid	(828,326)	(724,659)
Payments for other operating expenses	(4,110,737)	(4,221,254)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities	**1,043,796**	**1,192,470**
Decrease in financial assets and increase in financial liabilities	**382,972,726**	**534,777,491**
Decrease in receivables per securities and other financial assets not held for investment	365,515,460	530,389,414
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	17,457,266	4,388,077
Increase in financial assets and decrease in financial liabilities	**(395,088,524)**	**(543,726,245)**
Increase in loans and other receivables due to banks	(24,608,144)	(13,531,893)
Decrease in other financial liabilities	(370,480,380)	(530,194,352)
Net cash used in operating activities before income taxes	**(11,072,002)**	**(7,756,284)**
Income tax paid	(40,464)	-
Dividend paid	(1,636)	-
Net cash used in operating activities	**(11,114,102)**	**(7,756,284)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	**52,428**	**15,652,679**
Proceeds from the sales of investments in subsidiaries, associates and joint ventures	-	180,232
Proceeds from the sales of intangible assets, property, plant and equipment	49,873	23,567
Proceeds from the sales of investment property	2,555	-
Other inflows from investing activities	-	15,448,880
Cash outflows from investing activities	**(629,196)**	**(264,798)**
Cash used for the purchases of intangible assets, property, plant and equipment	(629,196)	(264,798)
Net cash (used in)/generated by investing activities	**(576,768)**	**15,387,881**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**8,230,628**	**6,429,182**
Inflows per subordinated liabilities	1,175,714	-
Borrowings, inflows	7,054,914	6,429,182
Cash outflows from financing activities	**-**	**(2,901,398)**
Cash used in the repayment of borrowings	-	(2,901,398)
Net cash generated by financing activities	**8,230,628**	**3,527,784**
TOTAL CASH INFLOWS	402,302,366	567,693,827
TOTAL CASH OUTFLOWS	(405,762,608)	(556,534,446)
NET CASH INCREASE	**-**	**11,159,381**
NET CASH DECREASE	**(3,460,242)**	**-**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 44)	**19,165,534**	**7,999,140**
FOREIGN EXCHANGE GAINS	167,140	203,045
FOREIGN EXCHANGE LOSSES	(243,705)	(196,032)
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 44)	**15,628,727**	**19,165,534**

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SEPARATE STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2020
(Thousands of RSD)

	Share and Other Capital	Share Premium	Reserves from Profit and Other Reserves	Revaluation Reserves	Profit	Loss	Total Equity and Reserves
Opening balance at January 1, 2019	**31,607,808**	**2,563,562**	**1,543**	**60,077**	**305,630**	**(8,215,332)**	**26,323,288**
Total positive other comprehensive income for the year	-	-	-	92,728	-	-	92,728
Profit for the year	-	-	-	-	5,982,870	-	5,982,870
Other – merger and acquisition effect (Note 24)				33,404	144,820	(734,733)	(556,509)
Loss absorption	-	-	(1,543)	-	(450,450)	451,993	-
Balance at December 31, 2019	**31,607,808**	**2,563,562**	**-**	**186,209**	**5,982,870**	**(8,498,072)**	**31,842,377**
Opening balance at January 1, 2020	**31,607,808**	**2,563,562**	**-**	**186,209**	**5,982,870**	**(8,498,072)**	**31,842,377**
Total positive other comprehensive income for the year				2,786			2,786
Loss for the year						(1,179,455)	(1,179,455)
Loss absorption	-	-	-	-	(5,982,870)	5,982,870	-
Balance at December 31, 2020	**31,607,808**	**2,563,562**	**-**	**188,995**	**-**	**(3,694,657)**	**30,665,708**

Notes on the following pages form an integral part
of these Separate financial statements.

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1. BANK'S ESTABLISHMENT AND ACTIVITY

Vojvođanska banka a.d. Novi Sad (hereinafter: the "Bank") is a legal successor OTP Banka Srbija a.d. Novi Sad. Under Decision of the Serbian Business Registers Agency no. BD 41337/2019 dated April 25, 2019, the Bank changed its legal name from OTP Banka Srbija a.d. Novi Sad to Vojvođanska banka a.d. Novi Sad.

OTP Banka Srbija a.d., Novi Sad is a direct legal successor of Kulska banka a.d., Novi Sad. Kulska banka a.d., Novi Sad was registered as a shareholding company with the Commercial Court of Sombor, in accordance with May 17, 1995 Decision No. Fi 488/95. Pursuant to the Serbian Business Registers Agency Decision number BD 32735/2007 as of May 18, 2007, the name Kulska banka a.d., Novi Sad was changed into OTP banka Srbija a.d., Novi Sad. Simultaneously, the status change of merger and acquisition was registered, whereby Zepter banka a.d. Beograd and Niška banka a.d. Niš were merged with and acquired by Kulska banka a.d. Novi Sad as the Acquirer; through the aforesaid status change Zepter banka a.d. Beograd and Niška banka a.d. Niš ceased to exist and were deleted from the Business Entity Register.

At its session held on January 28, 2019, the Assembly of OTP Banka Srbija a.d., Novi Sad enacted the Decision on Accepting the Merger of Vojvođanska banka a.d., Novi Sad. Under Decision no. BD 41344/2019 dated April 25, 2019, the status change of merger by acquisition was registered, with OTP Banka Srbija a.d. Novi Sad, as the Acquirer and Vojvođanska banka a.d. Novi Sad as the Acquiree, i.e., the entity deleted from the Business Entity Register due to the said status change. The status change of merger by acquisition was conducted as of April 26, 2019, when the said merger was recorded within the Business Entity Register.

The Bank is registered in the Republic of Serbia to provide banking services of payment transfers, lending and depositary and other activities in accordance with the Law on Banks. The Bank's registered Head Office address is Novi Sad, at no. 5, Trg slobode.

The Bank is a member of OTP Group. OTP Bank Plc. Budapest is the sole owner of the Bank, holding 100% of its share capital.

As at December 31, 2020, the Bank consisted of the Head Office in Novi Sad, at no. 5, Trg slobode, 5 regional affiliates, and 122 branches (2019: the Head Office in Novi Sad, 5 regional affiliates, and 138 branches).

As at December 31, 2020, the Bank had 1,786 employees (December 31, 2019: 1,957 employees).

The Bank's tax identification number is 100584604.

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of the Separate Financial Statements

The Bank's Separate financial statements (hereinafter: the "financial statements") for FY 2020 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and regulations of the National Bank of Serbia governing the financial reporting of banks.

As a large legal entity in accordance with the Law on Accounting (Official Gazette of RS nos. 62/2013, 30/2018 and 73/2019) the Bank is required to apply International Financial Reporting Standards ("IFRS"). In addition, under the Amendments and Supplements to the Law on Banks (Official Gazette of RS no. 14/2015), banks in the Republic of Serbia are required to apply IFRS and subsequent amendments to the standards and the related interpretations as from the dates that the competent international standard-setting body defined as their respective effective dates.

The accompanying Separate financial statements are presented in the format prescribed by the Decision on Forms and Content of Items in Financial Statement Forms to Be Completed by Banks (Official Gazette of RS nos. 71/2014, 135/2014,103/2018 and 93/2020).

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.1. Basis of Preparation and Presentation of the Separate Financial Statements (Continued)

The accompanying Separate financial statements are stand-alone (Separate) statements. The Bank separately prepares and presents consolidated financial statements in accordance with IFRS. As of December 31, 2020, the Bank was the sole (100%) owner of OTP Investments d.o.o., Novi Sad and OTP Factoring d.o.o., Novi Sad and held a 60% equity interest in OTP Lizing d.o.o., Beograd, which are FSI entities (Note 24).

These Separate financial statements have been prepared at historical cost principle, except where otherwise stated in the accounting policies set out in the following note. Amounts in the Bank's Separate financial statements are stated in thousands of dinars unless it is otherwise stated. Dinar (RSD) is the official presentation currency in the Republic of Serbia.

These Separate financial statements have been prepared on a going concern basis, assuming that the Bank will continue to operate in the foreseeable future.

The issued standards, amendments to the standards and relating interpretations that became effective in the current period and the standards, amendments to the standards and relating interpretations in issue but not yet in effect are presented in Notes 2.2 and 2.3, respectively.

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

2.2. Amendments to IFRS Effective and Mandatorily Applicable in the Current Year

The Bank's adopted accounting policies are consistent with the those applied in the previous financial year except for the following amended IFRS, adopted by the Bank as from January 1, 2020:

- ***Conceptual Framework for Financial Reporting***

The international Accounting standards Board ("IASB") issued the revised *Conceptual Framework for Financial Reporting* on March 29, 2018. This Framework is a comprehensive set of concepts for financial reporting and standard adoption and provides guidelines to companies in developing consistent accounting policies and assistance to other stakeholders to understand and interpret the standards. The Board has also issued a separate related pronouncement, *Amendments to References to the Conceptual Framework in IFRS Standards*, which includes amendments to the affected standards so that they refer to the revised *Conceptual Framework*. The objective of the amended references is to support transition to the revised *Conceptual Framework* for companies that develop accounting policies using the *Conceptual Framework* when no IFRS Standard applies to a particular transaction. For entities applying accounting policies based on the *Conceptual Framework,* it is effective for the period beginning on or after January 1, 2020.

- **IFRS 3 "Business Combinations": *'Definition of a Business'* (Amendments)**

IASB issued Amendments to IFRS 3 in the *Definition of a Business* in order help entities determine whether they have acquired a business or assets. These amendments apply to all business combinations and asset acquisitions for which the acquisition date is in the first annual reporting period beginning on or after January 1, 2020, with early adoption permitted. The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

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

The amendments are effective for annual periods beginning on or after January 1, 2020, with early adoption permitted. The amendments clarify the definition of material and the manner it is applied. The new definition specifies: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." In addition, explanations provided along with the new definition are now improved. The amendments have also resulted in consistency of the definition of material in all IFRS Standards. The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.2. Amendments to IFRS Effective and Mandatorily Applicable in the Current Year (Continued)

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

In September 2019, IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* finalizing Phase 1 of the project in response to the effects of the interbank offered rates (IBORs) on financial reporting. The amendments address only the hedge accounting issues arising before IBOR is replaced with an alternative interest rates and consider the implications for specific hedge accounting requirements in IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement", which require a forward-looking analysis. These amendments provide a temporary relief applicable to all hedging relationships directly affected by interest rate benchmark reform and allow hedge accounting to continue for affected hedges during the period of uncertainty, before IBORs are replaced with alternative virtually risk-free rates. The amendments also introduce new disclosure requirements to IFRS 7 "Financial Instruments: Disclosures" for uncertainties arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after January 1, 2020, and must be applied retrospectively. Phase 2 of the project will focus on issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free (RFR) interest rate. The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

2.3. New Standards and Amendments to the Existing Standards in Issue not yet Adopted

- **IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures": *'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'* (Amendments)**

The amendments deal with the well known the conflict between the requirements of IAS 28 and IFRS 10 regarding sale or contribution of assets between the investor and its associates and joint ventures. The result of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transactions involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the effective date was deferred indefinitely by IASB, until the research project on the equity method has been concluded. The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

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

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. IASB published in the Exposure Draft its proposal to defer the effective date to January 1, 2023. The amendments aim at promoting consistency in application of the requirements and helping companies to determine whether in their statements of financial position they need to classify debt and other liabilities with uncertain maturities as current or non-current. The amendments affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. In addition, the amendments clarify classification requirements for debt that can be settled by issue of own equity instruments. The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

- **IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and Annual Improvements to IFRS Standards 2018–2020 (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. In May 2020, IASB issued narrow-scope amendment to IFRS Standards as follows:

- **IFRS 3 "Business Combinations" (Amendments)** update IFRS 3 so that it refers to the *Conceptual Framework for Financial Reporting* without modifying requirements for business combination accounting.

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. New Standards and Amendments to the Existing Standards in Issue not yet Adopted (Continued)

- **IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and Annual Improvements to IFRS Standards 2018–2020 (Amendments) (Continued)**

  - **IAS 16 "Property, Plant and Equipment" (Amendments)** prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes such sales proceeds and related costs in the profit or loss (income) statement.
  - **IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (Amendments)** specify what costs an entity should include in the 'cost of fulfilling' a contract in order to determine whether a particular contract is onerous.
  - **Annual Improvements to IFRS Standards 2018–2020** include minor amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and illustrative examples for IFRS *Leases*.

The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

- **IFRS 16 "Leases" – *'COVID-19-Related Rent Concessions'* (Amendment)**

The amendment is effective for annual reporting periods beginning on or after June 1, 2020 for retrospective application, with early adoption permitted, including financial statements not approved for issue on May 28, 2020. IASB amended IFRS 16 to provide practical relief to lessees in accounting for lease contract modifications (rent concessions) occurring as a direct consequence of COVID-19. The amendment introduces a practical expedient that permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification but account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification, only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and.
- there is no substantive change to other terms and conditions of the lease.

The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

- ***'Interest Rate Benchmark Reform'* – Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, IASB issued the *Interest Rate Benchmark Reform* – Phase 2 *(Amendments to IFRS 9, IAS 39,IFRS 7, IFRS 4 and IFRS 16),* finalizing the project of addressing the issues of the IBOR reform. These amendments provide a temporary relief of the financial reporting effects when the interbank offered rates (IBORs) are replaced with alternative virtually risk-free rates (RFRs). Specifically, the amendments provide a practical expedient for entities to apply in such a way that that the change in the basis for determining the contractual cash flows is applied prospectively by revising the effective interest rate to reflect the market interest rate movements. In addition, the amendments introduce a relief from discontinuation of a hedge, including a temporary relief from the requirement for separately identifiable risk components when a RFR instrument is designated for risk component hedging. Furthermore, amendments to IFRS 4 are designed to allow insurers that still apply IAS 39 instead of IFRS 9 the same relief and practical expedients as those available under the amendments to IFRS 9. There are also related amendments to IFRS 7 that enable users of the financial statements to understand the nature and extent of effects and risks arising from IBOR reform and the reporting entity's risk management strategy. The Phase 2 amendments are applied for annual periods beginning on or after January 1, 2021 with earlier application being permitted. In retrospective application, entities are not required to restate prior periods. The Bank does not anticipate the effects of these amendments will have a material impact on its financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. New Standards and Amendments to the Existing Standards in Issue not yet Adopted (Continued)

The Bank's management has elected not to adopt these new standards, amendments to existing standards and new interpretations in advance of their effective dates. The management anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the Separate financial statements of the Bank in the period of initial application.

2.4. Comparative information

The Bank's accounting policies and estimates relating to the recognition and measurement of the assets and liabilities used upon preparation of the accompanying Separate financial statements are consistent with the accounting policies and estimates used in preparation of the Bank's Separate financial statements for FY 2019.

2.5. Use of Estimates

Preparation of the Separate financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. These estimations and assumptions are based on information available at the Separate financial statements' preparation date.

Actual amounts of assets and liabilities may vary from these estimates.

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods. If, upon review, it is determined that there have been changes to the estimated values, the effect of such changes are recognized in the Bank's Separate financial statements in the period(s) in which such changes occurred.

2.6. Going Concern

The Bank's Separate financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

2.7. Statement of Compliance

The Bank's accompanying Separate financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") in keeping with the Law on Banks and the bylaws of the National Bank of Serbia governing the financial reporting of banks.

2.8. Key Accounting Estimates and Assumptions

Preparation of the Separate financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period.

These estimations and assumptions are based on information available, as of the date of preparation of the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and when adjustments become necessary they are stated within the income statement for periods in which they became known.

The critical estimates and judgements as the key sources of estimate uncertainty that pose a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below.

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.8. Key Accounting Estimates and Assumptions (Continued)

(a) Impairment of Financial Assets

The estimation of impairment losses in the Bank's credit-risk exposed portfolio represents the major source of estimation uncertainty.

The Bank recognizes provisions for expected credit losses (ECL) per financial assets measured at amortized cost (AC) and debt instruments, i.e., financial assets measured at fair value through other comprehensive income (FVtOCI) as well as per borrowings and issued guarantees. The carrying values of the financial assets measured at AC are reduced by the amount of provisions for expected credit losses. Estimates and assumptions used by the Bank as inputs to the model for ECL measurement as well as the assessment of the significant increase in credit risk are disclosed in Note 46.4. Credit Risk.

(b) Impairment of Non-Financial Assets

At each reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property and equipment. If there is any indication that such assets have been impaired, the recoverable amount of each asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of the asset is estimated to be below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. Impairment assessment requires the management to make subjective judgments in respect to the cash flows, growth rates and discounting rates for cash-generating units subject to assessment.

(c) Useful Life of Intangible Assets, Property, Plant and Equipment

Determining the useful lives of intangible assets, property and equipment is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors (Note 3.14).

Adequacy of useful lives of assets is reviewed annually or whenever there are indications of significant changes in the factors underlying the estimates of useful lives.

(d) Provisions for Litigations

The Bank is involved in a number of lawsuits arising in the everyday business operations relating to the commercial and contractual issues, as well as labor issues, which are resolved or considered in the regular course of business. The Bank routinely estimates the probability of negative outcomes of these issues, as well as the amounts of likely or reasonable loss assessments.

Reasonable assessment encompasses judgments made by the management upon consideration of information provided in reports, settlements, assessment made by the Legal Department, facts available, identification of potentially responsible parties and their ability to contribute to the resolution of the matter, as well as historical experience.

Provisions for litigations are recognized when the Bank has an obligation whose reliable estimate can be made by way of a careful analysis. The amount of provisions is subject to changes contingent on new events or new information coming to light. The Bank reviews the estimated provisions on a quarterly basis.

The matters that either constitute a contingent liability or do not meet the criteria for provisioning are disclosed unless the probability of an outflow of resources embodying economic benefits is rather remote.

(e) Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses and/or tax credits to the extent that it is probable that future taxable profits will be available, against which the tax loss/credit carryforwards can be utilized. The Bank's management needs to make prudent assessments of deferred tax assets that may be recognized based on the period when these arise, expected future profit and the amount of future taxable income (Note 28).

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.8. Key Accounting Estimates and Assumptions (Continued)

(f) Retirement Benefits and Other Post-Employment Benefits

The cost of defined post-employment benefits to employees and/or retirement benefits upon fulfillment of all the legally prescribed criteria, are determined in an actuarial assessment. An actuarial assessment includes the assessment of a discount rate, future movements in salaries, mortality rates and employee turnover rates. Due to the long-term nature of these plans, significant uncertainties influence the outcome of such assessments.

Actuarial assumptions used in the calculation of the retirement and termination benefits are disclosed in Note 35 to the Separate financial statements.

(g) Fair Value of Financial Instruments

Fair value of the financial instruments traded in an active market is based on quoted market prices at the reporting date. Fair value of the financial instruments that are not quoted in an active market is determined using certain valuation techniques, which entail using judgement in fair value assessment. Valuation models reflect the current market conditions at the fair value measurement date and need not represent the market conditions prevailing before or after the measurement date. Therefore, valuation techniques are periodically reviewed so as to adequately reflect the market conditions.

Those entail the use of the present value method and other methods and models based on the observable and, to a less extent, unobservable inputs.

Valuation models are primarily used for measurement of derivatives in the stock exchange market and government bonds and debt securities not traded in active markets. These models take into account the credit risk impact if it is material. All valuation models are validated before they are used as the basis for financial reporting and they are subject to periodic review by qualified staff members, independent of those that created the model.

Wherever possible, the Bank compares the measurement resulting from the model applied to the quoted prices of the similar financial instruments and the actual prices achieved in actual transactions in order to validate calibrate its models. Various factors are incorporated into the Bank's models, including the actual and estimated market values and rates, as well as the time factor and changes in the market depth, liquidity and changes in the credit risk of financial liabilities.

The Bank applies models consistently from one period to another, thus ensuring comparability and continuity of valuation during time. However, fair value assessment inevitably entails significant extent of judgement. Therefore, the management sets up valuation adjustments to cover the differences relating to the estimates of unobservable parameters and assumptions within the models.

Although in some instances substantial judgement is required for fair value assessment, the management believes that the fair values presented in the statement of financial position and changes in the fair values reported in the income statement are prudent and reflect the actual economic conditions, based on the executed controls and protection procedures.

Valuation methods, assumptions and techniques used in fair value assessment are explained in greater detail in Note 47.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the adopted accounting policies to all periods presented in these Separate financial statements. The basic accounting policies applied by the Bank in preparation of the Separate financial statements are provided hereunder.

3.1. Income and Expense Recognition

(a) Interest Income and Expenses

Interest income and expenses, including other income and expenses from interest-bearing assets and liabilities, are calculated on an accrual basis of accounting (the matching principle) and the relevant terms defined by the contracts executed by and between the Bank and its customers.

Interest income and expenses are recognized in the income statement (profit or loss) using the effective interest method. The effective interest rate is the rate that precisely discounts the estimated future cash disbursements or payments through the expected duration of the financial instrument to:

- the gross carrying value of a financial asset (amortized cost before adjustment for the expected credit losses) or
- the amortized cost of a financial liability.

For POCI assets (purchased or originated credit-impaired assets) the credit-adjusted effective interest rate is calculated using the estimated future cash flows that include the expected credit losses.

Interest income is recognized for financial assets measured at amortized cost as well as per debt instruments measured at FVtOCI. Interest expenses are recognized for financial liabilities measured at amortized cost.

Loan origination fees, as part of the effective interest rate, are credited to the profit or loss account as interest income, i.e., as part of the effective return on loans disbursed proportionately to the past period of loan usage.

(b) Fee and Commission Income

Fee and commission income arise from banking services (payment transactions, issuance of guaranties and other sureties, letters of credit, purchase and sale of foreign currencies and other banking services) when such services are invoiced and rendered.

Fees and commission charged for guarantees, sureties and letters of credit issued are deferred and recognized as income proportionately over their maturity periods.

Fee and commission income and expenses that are integral part of the effective interest rate of a financial asset or liability are recognized within interest income and expenses.

(c) Net Gains/(Losses) on Changes in the Fair Value of Financial Instruments

Net gains/(losses) on changes in the fair value of the financial instruments comprise all gains and losses arising on the changes in fair values of derivatives.

(d) Net Gains/(Losses) from Hedging

Net gains/(losses) from hedging include all gains and losses on changes in fair values of derivatives designated as risk hedging instruments.

(e) Dividend Income

Dividend income from investments in shares of and equity interest held in other legal entities is recognized when the Bank's entitlement to dividend receipt is established. Such income is recorded within the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at official middle exchange rates of the National Bank of Serbia effective at that date. Gains or losses arising on the translation of receivables and payables are credited or charged to income statement.

Transactions denominated in foreign currencies are translated into dinars at official exchange rates effective at the date of each transaction. Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as net foreign exchange gains or losses and positive/negative currency clause effects.

Commitments and contingent liabilities in foreign currencies are translated into dinars at official middle exchange rates of the National Bank of Serbia effective as at the reporting date.

3.3. Financial Instruments

a) Recognition and Initial Measurement

A financial instrument is each contract based on which a financial asset of one entity and a financial liability or an equity instrument of another entity arise.

A financial asset or liability is measured initially at fair value plus transaction costs (except for financial assets and liabilities measured at fair value through profit or loss) directly attributable to the acquisition or issue of a financial asset or a liability.

The Bank initially recognizes financial instruments at the settlement date.

The Bank recognizes a financial asset or a financial liability from the moment it becomes a party to the contractual terms of an instrument.

In order to determine adequate classification and measurement, all financial assets except derivatives and equity instruments are analyzed according to the combination of the business model for financial asset management on one end and the characteristics of the contractual cash flows of the asset on the other end.

(b) Classification

IFRS 9 requires the Bank to make a distinction between the financial assets with high cash flow volatility, or those held for trading, and the financial assets that have nominal values and are held to collect the contractual cash flows rather than for sale or third party settlement.

The Bank classified its financial assets into three categories based on: (1) the manner in which the Bank manages the financial assets and (2) characteristic of the contractual cash flows of the financial assets, as follows:

- financial assets subsequently measured at amortized cost (AC) (within the Bank's hold-to-collect business model and giving rise to the cash flows that are solely payments of principal and interest on the principal outstanding – SPPI);
- financial assets subsequently measured at fair value through other comprehensive income (FVtOCI) (within the Bank's hold-to-collect-or sell business model and giving rise to the cash flows that are solely payments of principal and interest on the principal outstanding – SPPI);
- financial assets subsequently measured at fair value through profit or loss (FVtPL) – all other instruments, held within the business model whose objective is to collect cash flows from trading in these instruments.

IFRS 9 requires that all recognized financial assets be subsequently measured at either amortized cost or fair value (through OCI or through PL), depending on their classification and the business model for management of the financial assets and the characteristics of the financial assets' cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(b) Classification (Continued)

The Bank classifies all of its financial liabilities as subsequently measured at amortized cost except for:

- financial liabilities at FVtPL;
- financial liabilities arising when the transfer of financial assets does not meet the derecognition criteria or when there is continuing involvement; and
- financial guarantee contracts.

The Bank may, at initial recognition, irrevocably designate a financial liability to be measured at fair value through profit or loss if:

- doing so would eliminate or significantly reduce a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or a group of both financial assets and financial liabilities is managed and its performance assessed on the fair value basis in accordance with the documented risk management or investment strategies and if the information about the group is internally available to the Bank's key managerial team.

Purchased or Originated Credit Impaired Assets ("POCI Assets")

IFRS 9 introduced another model for measurement of financial assets – purchased or originated credit-impaired assets (POCI assets). These are financial assets impaired at initial recognition. A financial asset may be classified as POCI if:

1. it is credit-impaired at the moment of origination;
2. it has undergone significant modification as credit-impaired; and
3. it was purchased as credit-impaired.

(c) Reclassification of Financial Assets

The Bank reclassifies financial assets only when it changes the business model. If the Bank changes the business model for management of the financial assets, it will reclassify the assets prospectively, as form the reclassification date. The Bank will make no changes to the already recognized gains, losses (including impairment gains and losses) or interest.

The Bank does not make reclassifications of its financial liabilities.

In 2020, the Bank made no reclassification of its financial assets.

(d) Offsetting

Assets and liabilities are not offset except when offsetting is required or permitted under provisions of certain IAS/IFRS. Income and expenses are presented separately, as their offsetting is not permitted.

The Bank applies the following exemptions from the aforesaid rules:

- Presentation of assets decreased by impairment allowance is not deemed to be offsetting;
- Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously;
- Offsetting of income and expenses reflecting the substance of a transaction or event (e.g., foreign exchange gains and losses or gains and losses arising from financial instruments held for trading). However, such income and expenses are reported separately if, due to their volume, nature and frequency, separate disclosure is required.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(e) Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in a transferred financial asset that qualifies for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

Implementation of IFRS 9 introduced additional criteria for derecognition of financial assets. A financial assets is derecognized due to/through write-off or if the contractual terms of the financial asset have been subsequently modified, resulting in significant modifications of the cash flows of the financial asset. The difference between the fair value of the newly recognized financial asset and the carrying value of the old financial asset (now derecognized) is recognized in the statement of profit or loss (income statement) as a gain or loss on derecognition.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expired.

Implementation of IFRS 9 also introduced additional criteria for derecognition of financial liabilities – when the contractual terms of the liability are modified and the cash flows of the modified liability significantly altered. In such a case, a new financial liability, based on the altered terms, will be recognized at fair value. The difference between the carrying value of the previous financial liability and the new financial liability with modified terms is recognized in the income statement.

Whenever possible, the Bank would rather modify the contractual terms that foreclose collaterals. This may entail extension of the repayment period or agreeing on the new terms of crediting. The Bank's management reviews the modified financial instruments on an ongoing basis in order to ensure that all criteria are met and that future payments are likely to occur.

When the contractual cash flows of a financial asset are renegotiated and modified and the new agreement or the modification does not result in derecognition of the financial asset in accordance with IFRS 9, the Bank will calculate the gain or loss on modification as a difference between the present value of the newly agreed contractual cash flows (under the modified terms) discounted using the original effective interest rate of the loan and the net carrying value after the write-off, if any. The Bank assesses the effects of such modifications on the loan portfolio for corporate an retail segments on an ongoing basis as well as their impact on the financial position of the Bank.

In line with the Decision on the Temporary Measures for Preservation of the Financial System Stability (Official Gazette of RS no. 33/2020), on March 20, 2020, on its internet page the Bank offered its customers (individuals, agricultural producers, entrepreneurs and corporate customers) a suspension of borrowing liability repayment (moratorium) that could not be shorter than 90 days. After the moratorium expiration, the Bank extended the loan repayment period for the moratorium duration to all customers that accepted and used the offered suspension of borrowing liability repayment (moratorium) and created new loan repayment schedules for all loans repaid in installments. Regular interest accrued during the moratorium was apportioned on straight-line basis over the remaining loan repayment period after the moratorium expiration.

In line with the Decision on the Temporary Measures for Banks for Mitigating the Consequences of Covid-19 Pandemic in Order to Preserve the Financial System Stability (Official Gazette of RS no. 103/2020), on July 31, 2020, on its internet page the Bank offered its customers (individuals, agricultural producers, entrepreneurs and corporate customers) a suspension of borrowing liability repayment (moratorium) for liabilities matured yet not settled as from July 1, 2020 up to and inclusive of September 30, 2020. After the moratorium expiration, the Bank extended the loan repayment period for the moratorium duration to all customers that accepted and used the offered suspension of borrowing liability repayment (moratorium) and created new loan repayment schedules for all loans repaid in installments. Regular interest accrued during the moratorium was apportioned on straight-line basis over the remaining loan repayment period after the moratorium expiration.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(e) Derecognition (Continued)

Financial Liabilities (Continued)

In 2020, the Bank calculated a material loss on modification of loans resulting from the suspension in borrower debt repayment (the moratoria). The modification loss is recognized in the income statements in accordance with the Bank's accounting policy.

In line with the Decision on the Temporary Measures for Banks to Enable Adequate Credit Risk Management in Conditions of Covid-19 Pandemic (Official Gazette of RS no. 150/2020), effective as from December 15, 2020, on its internet page and its business premises the Bank posted notification that its borrowers (individuals, agricultural producers, entrepreneurs and corporate customers) unable to settle their liabilities toward the Bank due to the Covid-19 pandemic, i.e., having difficulties in settling such liabilities, may file with the Bank a request for approval of incentives/facilities in accordance with the said Decision. The incentives entail loan rescheduling and loan refinancing. Borrowers may file requests for approval of loan repayment facilities on the Bank's premises, on-line or by mail no later than April 30, 2021.

If a modification is substantial, the financial instrument is derecognized. This may be restructuring due to a change in the loan currency, when the initially agreed rights to the contractual cash flows are regarded as expired and the new asset is recognized at fair value.

(g) Impairment of Financial Assets

Impairment requirements of IFRS 9 are based on the model of expected credit losses (ECL). This model of impairment allowance identifies impairment losses before they are incurred. The leading principle of ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of a financial instrument.

At each reporting date, the Bank measures impairment allowances of the financial instruments in the amount equal to the expected impairment during the life (lifetime ECL) of the instrument if the instrument's credit risk has significantly increased since its initial recognition.

If at the reporting date there is no significant increase in the credit risk of the asset since its initial recognition, the Bank measures impairment allowance of that financial asset in the amount of 12-month ECL. The Bank recognizes in its income statement as gain or loss on the impairment the amount of ECL (or reversal thereof) required to adjusts the impairment allowance at the reporting date to the amount that is to be recognized in accordance with IFRS 9.

At each reporting date, the Bank assesses whether there has been a significant increase in the credit risk of a financial instrument since its initial recognition. When making the assessment, the Bank uses changes in the risk of default occurring over the expected life of the instrument instead of the change in the amount of ECL. In order to make the assessment, the Bank compares the risk of default occurring at the reporting date to the risk of default occurring at the date of the initial recognition of the asset and considers reasonable and supportable forward-looking information if it is available without undue cost or effort.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(g) Impairment of Financial Assets (Continued)

IFRS 9 requires classification of financial assets for impairment assessment purposes into three stages. The amount of ECL recognized as the impairment allowance depends on the credit risk increase since the initial recognition. Within the general approach, there are two options for measurement:

- 12-month ECL (Stage 1), applicable to all items without a significant increase in the credit risk; and
- Lifetime (LT) ECL for Stage 2 and Stage 3, applicable in instances of a significant increase in the credit risk on either individual or collective basis.

All exposures not classified into Stage 2 or Stage 3 or not recognized as POCI assets are allocated to Stage 1. A financial instrument is allocated to Stage 1 (or POCI) upon origination or purchase.

The Bank may assume that a credit risk of a financial instrument has not increased significantly since its initial recognition if it is determined that the instrument has a low-level credit risk as of the reporting date. This may happen if a financial asset has a low risk of default, the borrower has a strong capacity to fulfill its obligations in respect of the contractual cash flows in the near term and the long-term adverse changes in the economic and business conditions may yet need not necessarily reduce the borrower's ability to fulfill those contractual cash flow obligations.

Performing (Stage 1) financial assets include all the financial assets in respect of which events and conditions described for Stage 2 and Stage 2 do not exist as of the reporting date.

A financial asset exhibits a significant increase in the credit risk (Stage 2) if any of the following triggers exist in respect thereof at the reporting date, without meeting the criteria for allocation to Stage 3 – non-performing loans (NPL):

a) a delay in payment of liabilities exceeds 30 days (days past due for the purposes of IFRS 9 calculation based on the materiality set up by the National Bank of Serbia; a material amount is an amount above 1% of receivables at the level of a single loan facility but cannot be below RSD 1,000 for private individuals and RSD 10,000 for corporate customers; due to the conservative approach applied, the suspended interest for Stage 3 borrowers is also included in the calculation of days past due for the purposes of IFRS 9 calculation of impairment);
b) the asset is classified as performing forborne;
c) under a discretionary decision, the currency of a loan has undergone a significant "shock" since the loan disbursement and there is no hedge against the change in the currency's exchange rate;
d) the customer/transaction rating exceeds a pre-defined value or falls into a certain determined range, or has deteriorated to pre-defined degree compared to the historical value (internal ratings are currently not being used by the Bank);
e) in case of a retail mortgage loan, the loan-to-value (LTV) ratio exceeds a pre-defined rate (125%);
f) default on another loan of a retail customer, unless there is a cross-default clause;
g) Watch-list 2: a corporate and SME segment exposure (defined as above materiality level) classified as an exposure exhibiting a significantly increased credit risk based on the early warning system (EWS) signals or subjective judgement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(g) Impairment of Financial Assets (Continued)

A financial asset is non-performing (Stage 3) when any of the following events or conditions exist at the in respect thereof as of the reporting date:

a/ default;
b/ the asset is classified as a non-performing forborne;
c/ a non-retail exposure (above the defined materiality) in non-workout management, is classified during the monitoring process as a Watch-list 3 exposure (during the monitoring process, the exposure has been assessed as non-performing based on EWS signals or subjective judgement).

In instances of cross-border and joint Group financing, it is required that certain loans (borrowers) are allocated to the same Stage and that identical impairment is recognized. If a Group member provides financing in the country/jurisdiction of another Group member, during valuation of such deals, the impairment rate applicable in the country of the financed client must be used. The same applies to joint cross-border financing if the financed deal is carried out in the country of a Group member. If the deals are in different countries, the impairment rates applicable in the country of domicile of the Group member must be applied.

Upon calculation of expected credit losses as an unbiased neutral estimate of a range of possible outcomes, the available forward-looking information needs to be incorporated in the estimation. This includes general information relating to the macroeconomic environment, as well as the information on the future of individual financial assets. The methodology for general forward looking information, i.e., macroeconomic expectations and scenarios should be consistent throughout the whole Group.

Receivables are written off only when all available sources of collection have been exhausted (e.g., completed bankruptcy and enforcement procedures, completed foreclosure of all available collateral, completed checkups of the client's personal property or the property of the guarantors and it has been established that they do not possess real estate properties in the territory of the Republic of Serbia), when the client is no longer able to settle the liabilities or when the proceeds from the sales of collaterals will not be sufficient for repayment of the entire exposure.

Receivables may be written off in case of debt settlement agreement executed with the client / guarantor or mortgage debtor if it is concluded that the terms of such an agreement ensure better collection of receivables than the sales of property, if any. In such cases the Bank may agree on the write-off of the portion of the receivables remaining after debt settlement under the relevant debt settlement agreement.

Write-off of irrecoverable receivables is made based on the court ruling or the relevant decision of the competent Bank's body in accordance with the Rules on the Decision Making Levels, when there is no possibility of collection and when all the collaterals have been activated, or in case of debt settlement under the relevant debt settlement agreement.

The Bank writes off the gross carrying value of a financial asset if there are no reasonable expectations of its collection or full or partial recovery of the asset's cash flows. Write-off is an event resulting in derecognition.

The Bank's internal bylaws provide more detailed definitions of criteria and conditions for write-off of receivables, in accordance with the regulations prevailing in the Republic of Serbia, current banking industry practices and OTP Group's rules. In accordance with the regulations effective in the Republic of Serbia, the Bank makes partial write-off in line with OTP Group's rules. The Bank's internal bylaws provide more detailed definitions of the partial write-off procedures.

Corporate and retail loans and receivables meeting the criteria for write-off may be subject to:

- accounting write-off and transfer to the off-balance sheet items;
- partial write-off; and
- debt release.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(g) Impairment of Financial Assets (Continued)

The accounting write-off entails write-off and transfer of uncollected receivable to the Bank's off-balance sheet items and derecognition of non-performing loans and receivables or part thereof from the Bank's statement of financial position. The transfer to the Bank's off-balance sheet items means that the Bank will continue with collection activities. In such cases, the Bank also defines the tax treatment of the accounting write-off if it has not been previously considered.

Under Decision on the Accounting Write-Off of the Bank Balance Sheet Assets of the National Bank of Serbia (Official Gazette of RS no. 77/2017), the Bank is under obligation to perform the accounting write-off of the balance sheet assets with low recoverability.

The balance sheet assets referred to above refer to non-performing loans as defined by the decision governing the classification of bank balance sheet assets and off-balance sheet items.

The Bank shall carry out the accounting write-off of a non-performing loan in the event that the calculated amount of impairment of the loan recorded by the Bank as impairment allowance equals 100% of its gross carrying value, which means that direct or accounting write-off is made if the impairment allowance made amounts to 100% of the on-balance exposure of the loans and receivables.

The partial write-off entails writing off a portion of the receivable for which impairment allowance has been made and collection (recovery) of which is expected neither from the operating cash flows of the borrower nor from the collateral foreclosure. The maximum amount expected from the collateral sale along with the unaltered net exposure after the partial write-off and transfer to the off-balance sheet items is to be carried on-balance until the ultimate collateral sale.

Debt release represents derecognition from the Bank's off-balance sheet items in the event that all collection sources have been exhausted and the receivables cannot be collected in any manner whatsoever, i.e., they are regarded as irrecoverable.

3.4. Loans and Receivables de form Banks, Financial Institutions and Customers

Loans and receivables include:

- loans and receivables measured at amortized cost (AC); such loans and receivables are initially recognized at fair value increased by direct transaction costs, and subsequently measured at amortized cost using the effective interest method; and
- loans and receivables measured at fair value through profit or loss (FVtPL) in accordance with the business model and characteristic of the cash flows.

As of December 31, 2020, the Bank had no loans and receivables in its portfolio meeting the criteria for measurement at FVtPL.

3.5. Securities

(a) Financial Assets Measured at Fair Value through Other Comprehensive Income (FVtOCI)

Debt Instruments

Financial assets classified as measured at FVtOCI are measured at fair value both initially and subsequently. Changes in their carrying amounts are recorded within the other comprehensive income except for recognition of the expected impairment gains and losses, interest income and foreign exchange gains and losses, which are recognized within the income statement. In the event of derecognition before maturity, cumulative gains or losses on such securities are reclassified from equity and may have effects that will be reflected in the profit or loss statement (income statement).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Securities (Continued)

(a) Financial Assets Measured at Fair Value through Other Comprehensive Income (FVtOCI) (Continued)

Equity Instruments

All equity instruments within the scope of IFRS 9 are to be measured at fair value in the statement of financial position with effects of fair value changes recognized in the profit or loss except for the equity investments for which the Bank has elected the FVtOCI option for the fair value changes. Equity instruments not quoted in active markets are no exception.

Changes in the fair value of an investment in an equity instrument initially classified as measured at FVtOCI are presented within the other comprehensive income. Such amounts recognized in the other comprehensive income cannot be subsequently reclassified to the profit or loss account. Cumulative gains or losses are presented within equity. Dividend income from such equity investments is recognized in the profit or loss (income) statement.

According to IAS 32, interest, dividends, gains or losses pertaining to a financial instrument or a component thereof classified as a financial liability are recognized in the profit or loss statement as income or expenses. Distributions to the holders of the equity instruments are recognized within (charged to) the Bank's equity. Transaction costs incurred in equity transactions are accounted for as equity deductibles.

((b) Financial Assets Measured at Fair Value through Profit or Loss (FVtPL)

Financial assets are classified as measured at FVtPL if they do not meet the criteria for recognition at FVtOCI or at AC, i.e., if not measured at FVtOCI or at AC.

Gains and losses on fair market value adjustments of debt securities measured at FVtPL are recognized within the profit or loss statement and they are not subject to impairment.

3.6. Financial Derivatives

The Bank uses financial derivative instruments such as currency forwards, currency swaps and interest rate swaps as risk hedges and for trading purposes. Derivatives are presented in the statement of financial position at fair value. The Bank has elected to account for such transactions at the trading date.

Upon execution of forwards, the Bank records transactions per such contracts at the time of their occurrence and recognizes financial assets and financial liabilities in respect of forward transactions to be realized in the ensuing period. The Bank performs daily valuation of the unrealized forward transactions by crediting/debiting the deferral/accrual accounts and the income (profit or loss) statement as of the reporting date.

During 2020 and 2019 the Bank primarily used currency swap derivatives for short-term balancing of its foreign currency position and ensuring the required currency structure of funds held on accounts with foreign banks.

As of the reporting date, the Bank had in its portfolio only derivatives held for trading. The Bank initially recognizes financial derivatives at the contractually agreed value (cost) within the off-balance sheet items. The cost of derivatives represents the fair value of the consideration paid or received, with any fair value adjustment as of the reporting date recorded within the statement of financial position and profit or loss. Derivatives held for trading consist of currency swaps and forwards (Note 40).

3.7. Borrowings and Deposits

Issued financial instruments and other financial liabilities are initially recognized at fair value less directly attributable transaction costs. They are subsequently measured at amortized cost (AC) (unless measured at FVtPL), with any difference between the proceeds and the repaid amounts thereof recognized in the profit or loss statement over the period of the loan usage under the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Borrowings and Deposits (Continued)

Deposits due to banks and customers and other interest-bearing financial liabilities are measured upon initial recognition at fair value less directly attributable transaction costs, except for the financial liabilities measured at FVtPL. Subsequent to initial recognition, liabilities per deposits are measured at amortized cost.

Liabilities arising from borrowings are initially recognized at fair value less directly attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortized cost. Borrowings are classified as current liabilities unless the Bank has an unconditional right to settle the liability within no less than 12 months after the reporting date.

As of the reporting date, the Bank had a long-term borrowing obtained from OTP Financing Malta Company Limited (Note 33).

33.8. Trade Payables and Other Current Liabilities

Trade payables and other current liabilities are measured at amortized cost (AC), which, due to the short-term nature of these liabilities, corresponds to their nominal value.

3.9. Cash and Balances Held with the Central Bank

Cash and balances held with the central bank include cash on hand in local and in foreign currencies, and balances on the current accounts held with the National Bank of Serbia, including the obligatory RSD and foreign currency reserves.

This item also includes gold and other precious metals initially measured at cost and subsequently carried at their market value. The market value is determined based on the price of precious metals quoted on the global market. The increase in the market value is recognized as income while the decrease is included in expenses on the income statement.

Cash and cash equivalents as presented in the statement of the cash flows include cash on hand, balances on the current accounts held with the National Bank of Serbia, gold and other precious metal and funds held on the foreign currency accounts (Note 43).

3.10. Repo Transactions

Securities purchased under contracts stipulating their resale at the specified future dates are recognized in the statement of financial position. Cash paid in this respect, including the interest matures, is also recognized in the statement of financial position. The difference between the purchase price and the resale price is treated as interest income maturing over the contract term.

Securities that the Bank acquired through purchase from the National Bank of Serbia with agreed obligation to resell them under the Framework Agreement on the Sale of Securities with Mandatory Purchase are stated at amortized cost as of the reporting date.

3.11. Investments in Subsidiaries

Investments in the Bank's subsidiaries are recorded in these Separate financial statements at fair value, i.e., cost less impairment, if any. The Bank recognizes income from the equity investments in subsidiaries only if the subsidiaries have distributed profit, i.e., enacted respective decisions on profit distribution. Such income is recorded within the income statement.

A subsidiary is an entity where the reporting entity holds an equity (ownership) interest of over 50% or more than half of the voting power and the right to govern the subsidiary's financial and operating policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Intangible Assets

An intangible asset is a non-monetary asset without physical substance for which there are expectations that the future economic benefits embodied in the asset will flow to the Bank. An asset is identifiable as an intangible asset if the following criteria are met:

- it is identifiable;
- there is control over the asset; and
- there are future economic benefits embodied in the asset.

If the above listed criteria are not met, the costs of the item acquisition or generation are recognized as expenses when incurred.

The Bank's intangible assets include licenses, software and similar rights and other intangible assets.

Intangible assets are stated at cost less accumulated amortization and aggregate impairment losses, if any (Note 25).

Investments in intangible assets for a period of over a year are recognized as intangible assets in the statement of financial position, while such investments made for a period shorter than a year are presented as the current period's expenses.
The cost of a purchased intangible asset consists of:

- its purchase price, including import duties and non-refundable purchase taxes; and
- any directly attributable cost of preparing the asset for its intended use (costs of employee benefits arising directly from bringing the asset to its working condition; professional fees and costs of testing whether the asset is functioning properly).

Expenditure for maintenance of the computer software applications are recognized as expenses when incurred. Examples of the expenditures that do not meet the criteria for recognition as intangible assets are:

- expenditure on training activities;
- costs of commissioning and repairs;
- expenditure on relocating or reorganizing;
- expenditure on internally generated brands; and
- quality control and marketing and advertising costs.

Testing of intangible assets for impairment is carried out by comparing the recoverable amounts of such assets to their carrying amounts whenever there is indication that the Bank's intangible assets may have suffered impairment.

In order to test the intangible assets (with both definite and indefinite useful lives) for impairment the Bank is required to assess the recoverable amount of each asset, which is the higher of the asset's fair value less costs to sell and its value in use.

An intangible asset is not impaired if one of the above said two values exceeds its carrying amount. IAS 36 "Impairment of Assets" stipulates measurement of an impairment loss under the assumption that the Bank will elect to recover the asset's carrying value in the manner that provides the most benefits. If the asset's recoverable amount is below its carrying value, the carrying value is reduced to the recoverable amount. This decrease represents an impairment loss, which is immediately recognized in the income statement.

If it is not possible to assess the recoverable amount of an individual intangible asset, the Bank determines the recoverable amount of cash-generating unit the asset belongs to. In instances of new intangible assets recognized during the reporting period, the Bank must test those assets for impairment at the end of that period.

A loss incurred on impairment of an asset recognized in prior years is reversed only if the estimates used in determining the recoverable amount of the asset have changed, after the impairment loss was last recognized. Such a reversal of an impairment loss is immediately recognized in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Property, Plant and Equipment ("Fixed Assets")

The Bank's property, plant and equipment mostly comprise buildings, equipment and leasehold improvements.

The Bank's property, plant and equipment (fixed assets) are stated at cost (historical cost) less any accumulated depreciation and impairment, if any. Such items are subsequently carried at cost less any accumulated depreciation and aggregate impairment losses.

Costs incurred after acquisition of an asset classified within property and equipment are capitalized only when it is probable that the Bank will have future economic benefits from the asset in excess of those originally assessed. Otherwise, such costs are recognized within expenses as incurred.

Property is assessed for impairment in order to determine whether there is any indication of losses incurred on impairment of property items. If any such indication exists, the Bank test the assets for impairment by calculating the recoverable amounts of such assets and comparing those to the carrying values of the assets. When such an asset is partially impaired and still has some value for the Bank, the Bank still conducts the impairment test by comparing the asset's recoverable amount to its carrying value. The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell. The impairment loss is recognized in the amount equal to the difference between the carrying value and the recoverable amount within expenses in accordance with IAS 36 "Impairment of Assets".

Gains or losses arising on the sale, disposal and retirement are recognized within the profit or loss (income) statement, as part of the other income and other expenses.

3.14. Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

Intangible assets are amortized on a straight-line basis over the period of 5 years, except for the assets with contractually defined period of use, when they are amortized over the periods stipulated by the relevant contracts.

Amortization/depreciation of assets commences when the assets are available for use and ceases when the assets are derecognized.

Amortization/depreciation is calculated on a straight-line basis over the remaining useful lives of intangible assets, property, plant and equipment in order to fully write off the assets until the end of their useful lives. For depreciation of property, the Bank has elected to use the residual value and the estimated useful life of 50 years. The residual value of an asset is an estimated amount the asset's owner would receive (earn) by disposing of an asset, less any estimated disposal costs, assuming that the asset as at the end of its useful life and in the condition it is expected to be in at the end of its useful life. Since January 1, 2018, the Bank has been using the residual value for its properties in the amount of 25% of their carrying value. The residual value is a percentage of the carrying value of buildings and the difference between these two values is the base for calculation of the depreciation charge.

The Bank has defined the following estimated useful lives:

- Land	indefinite
- Buildings used for the Bank's operations	up to 50 years
- Buildings (other than those used for the Bank's operations)	up to 50 years
- Leasehold improvements	the remaining lease term, up to 5 years
- Furniture and the relevant office equipment	up to 12 years
- Motor vehicles	up to 12 years
- Hardware and other equipment	up to 5 years

3.15. Investment Property

The Bank's investment property is property held to earn rental income and/or for capital appreciation.

Upon initial recognition, an item of investment property is measured at cost less accumulated depreciation and aggregate impairment losses, if any (Note 27).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Investment Property (Continued)

Since January 1, 2018, the Bank has been calculating depreciation of investment property on a straight-line basis to the carrying value of the assets less the residual value (25% of the cost) using the annual depreciation rate of 2%. The difference between the carrying value and the residual value of the asset is the base for calculation of the depreciation charge.

Investment property is assessed for impairment in order to identify whether there is any indication that there may be a loss due to impairment of the Bank's investment property.

3.16. Non-Current Assets Held for Sale

In accordance with IFRS 5 "Non-Current Assets held for Sale and Discontinued Operations" the Bank classifies a non-current asset as an asset held for sale if its carrying value can be recovered primarily through a sale transaction rather than permanent use. Assets classified as non-current assets held for sale must available for immediate sale in their current condition and the sale must be highly probable.

Upon reclassification of a portion of assets into non-current assets held for sale, assets are measured at the lower of their carrying value and fair value less costs to sell. If the carrying value is lower, the asset is stated at its carrying value whereas in the case of the lower fair value, revaluation surplus accrued for that particular asset is reversed, and the amount in excess of such surplus is charged to expenses of the given period as impairment of assets. In order to reclassify and asset from investment property to non-current assets held for sale, not only a relevant decision on the sale is to be made but also the capital expenditure of reclassification of such an asset.

When a non-current asset is no longer classified as held for sale, it is measured at the lower of the following two amounts:

- Its carrying value before classification as an asset held for sale, adjusted for depreciation that would have been recognized had the asset not been classified as held for sale; and
- Its recoverable amount at the date when it was subsequently decided that the asset will no longer be held for sale.

The recoverable amount of the asset is the higher of the asset's fair value less costs to sell and the value in use. The value in use is the present value of the estimated future cash flows expected to arise from the continuing use of the asset and its disposal at the end of its useful life.

Properties recorded with the class of assets held for sale are carried at the present value. Upon reclassification, it is necessary to calculate the depreciation charge for the period over which the assets were not depreciated and record it.

Non-current assets held for sale are not depreciated.

3.17. Assets Acquired in Lieu of Debt Collection and Held for Sale

Tangible assets received/acquired in lieu of debt collection are classified as assets held for sale and presented within the line item of other assets. Assets held for sale are measured at the lower of cost and net realizable value in accordance with IAS 2 "Inventories".

If a property acquired in lieu of debt collection is not sold within 5 (five) years from acquisition, the Bank records its impairment in the amount of 90% irrespective of the appraisal performed by an external independent appraiser.

If assets other than property, acquired in lieu of debt collection is not sold within 3 (three) years from acquisition, the Bank records its impairment in full (100%).

3.18. Finance and Operating Lease Arrangements

A contract or a part of a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The control is transferred when the customer has both the right to direct the use of the identified assets and realize economic benefits from that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Finance and Operating Lease Arrangements (Continued)

Lessee Accounting

As the lessee, the Bank performs analyses of the lease contracts and determines whether they meet the requirements of IFRS 16. The Bank assesses whether there is an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the lease term, whether it has the right to direct how and for what purpose the asset is used throughout the period of use, and whether it has the right to use the asset over the entire lease term. The Bank also considers whether it complies with all the criteria prescribed by the Standard for recognition of the right-of-use assets and the relating lease liabilities in the statement of financial position.

At the commencement date, a lessee measures the right-of-use asset at cost.

The cost of the right-of-use asset comprises:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee as a result of the lease contract execution;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, or restoring the site where it is located.

At the commencement date, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term:
- fixed lease payments less any lease incentives receivable;
- variable lease payments that depend on a market index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

In addition to recognizing the right-of-use assets and the relating leas liabilities within the statement of the financial position, under the lease contracts the Bank also recognizes and records the following expenses in its books:
- amortization/depreciation charge;
- interest on the lease liability;
- costs of changes in variable lease payments; and
- foreign exchange losses.

As the lessee, the Bank will not apply the general rules for lease recognition under IFRS 16 for the following:
- short-term leases, and
- leases with low-value underlying assets.

A short-term lease is a lease contract executed with a lessor for a period of 12 months or less. In this case, the Bank recognizes all the lease payments under such contracts as the lease expenses on a straight-line basis within the income statement over the lease term.

A lease contract that includes a purchase option cannot be considered a short-term lease irrespective of the lease term defined.

The assessment whether the value of a specific underlying asset is low is performed based on the absolute value and per each individual asset. The low value assets are considered to be those with values of up to USD 5,000. Such lease payments are recognized as expenses using on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Finance and Operating Lease Arrangements (Continued)

Lessee Accounting

As of the date of IFRS 16 initial adoption, the Bank recognized lease liabilities pertaining to the lease previously classified as operating leases in accordance with the stipulations of IAS 17 “Leases”. Such liabilities represent the present value of the future lease payments as at the date of IFRS 16 initial adoption. The lease payments were discounted using an adequate discount rate.

Lessor Accounting

A lessor classifies leases into finance or operating leases based on the careful assessment of the lease contract substance at the inception date.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

The lessor recognizes payments made under operating lease contracts as income on a straight-line basis throughout the lease term.

The lessor recognizes costs, including depreciation charge and property taxes, incurred in earning the lease income as an expense.

The depreciation/amortization policy for depreciable underlying assets subject to operating leases should be consistent with the lessor’s normal depreciation/amortization policy for similar assets in accordance with IAS 16 and IAS 38.

The lessor presents assets subject to operating lease arrangements in its financial statements according to the type/class of assets.

3.19. Provisions, Contingent Liabilities and Contingent Assets

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 of provisions are considered, determined and, if necessary, adjusted at each reporting date.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed by cancelation of the current year’s expenses, i.e., reversed to income if the provision was made in the previous period. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements (Note 39), unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements. They are disclosed in notes to the financial statements if an inflow of resources embodying economic benefits is probable.

3.20. Equity

The Bank's equity is comprised of: issued (share) capital, share issue premium, reserves, retained earnings and current year’s profit/loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20. Equity (Continued)

The Bank's share capital is formed from the monetary contributions made by the Bank's founders. For funds invested, shareholders receive a proportionate number of shares or receipts as defined in the Law on the Capital Market (Official Gazette of RS nos. 31/11 and 112/15). Shareholders cannot withdraw funds invested in the Bank's share capital. The Bank uses capital to perform banking operations and cover operating risks.

The structure of and changes in the Bank's equity are disclosed in Note 38.

3.21. Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of payment guarantees and performance bonds, letters of credit, acceptances and other warranties. Financial guarantees are contracts which obligate the issuer of a guarantee to perform the payment or compensate the loss to the holder of a guarantee, incurred if a certain client fails to settle its liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is issued. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is recognized in the income statement. The premium received is recognized in the income statement within the fee and commission income on a straight-line basis over the life of the guarantee.

Financial guarantees are presented under contingent liabilities, within the Bank's off-balance sheet items (Note 39).

3.22. Employee Benefits

Long-Term Employee Benefits – Retirement Benefits

The Bank does not have defined benefit plans or share-based remuneration options and consequently had no liabilities recognized in this respect as of December 31, 2020.

3.23. Managed Funds

The Bank manages funds on behalf of and for the account of third parties and charges fees for these services. These items are not included in the Bank's statement of financial position and are presented within off-balance sheet items (Note 41).

3.24. Taxes and Contributions

(a) Current Income Tax

Current income tax represents an amount calculated in accordance with the effective Republic of Serbia's Corporate Income Tax Law (Official Gazette of RS nos. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015, 113/2017, 95/2018, 86/2019 and 153/2020) and the relevant bylaws and regulations.

Current income tax represents an amount that is calculated by applying the prescribed income tax rate of 15% (effective in 2019 and 2020) to the taxable income reported in the tax statement and income tax return, adjusted for determined tax credits. Taxable income represents the profit shown in the statutory income statement adjusted under the statutory tax rules of the Republic of Serbia. The monthly advance income tax payment is paid on monthly basis while the adjustment of the sum of advance payments is made at the year-end, i.e. upon submission of the tax statement and the annual income tax return to the tax authorities for advance/final assignment of the corporate income tax.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24. Taxes and Contributions (Continued)

(a) Current Income Tax (Continued)

Article 50k of the Corporate Income Tax Law introduces a new form of a tax credit for bank taxpayers in the amount of 2% of the debt outstanding determined under Article 4, para. 2 of the Law on Conversion of Housing Loans Indexed in Swiss Francs. This form of a tax credit is applicable as from the tax period beginning in 2020. The Bank becomes entitled to the tax credit in 2020 occurs but may use only half of the total tax credit amount in 2020, while the other half may be used in 2021. In case a taxpayer is unable to use the tax credit in this way, in line with CIT Law Article 50k, para. 3, the unused portion of the tax credit may be carried forward to income tax account for the future accounting periods but no longer than ten ensuing years (no longer than 2030). In the current account period, the Bank used a portion of the tax credit, while the remaining amount will be utilized in the future periods.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years.

(b) Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, value added tax, payroll taxes and contributions and various other taxes and contributions payable pursuant to the effective republic and local tax regulations. These taxes and contributions are included in profit and loss within operating expenses and staff costs. VAT may be presented within certain statement of financial position items if relating to procurements that do not represent expenses but certain statement of financial position items according to IFRS/IAS.

(c) Deferred Income Taxes

Deferred income taxes are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the Bank's financial statements in accordance with IAS 12 “Income Taxes”.

Deferred tax liabilities are recognized for all taxable temporary differences as at the reporting date between the tax bases of assets and liabilities and their carrying values used for financial reporting purposes, which will result in taxable amounts in the future periods.

Deferred tax assets are income tax amounts recoverable in the future periods which pertain to all deductible temporary differences and all unused tax credits and losses available for carryforward.

Deferred tax assets and liabilities are determined at the tax rate expected to be applied in the period of the relevant asset realization/liability settlement, based on the currently enacted or tax rates expected to be enacted up to the balance sheet date. Deferred tax assets and liabilities were provided at the rate of 15% (2019: 15%).

In 2020 the Bank recognized deferred tax assets in respect of: provisions for retirement benefits calculated in accordance with IAS 19 “Employee Benefits”, unpaid public duties payable and provisions for litigations, IFRS 9 adoption effects and in respect of a tax credit in the amount of 2% of the debt outstanding determined under Article 4, para. 2 of the Law on Conversion of Housing Loans Indexed in Swiss Francs.

The carrying amount of deferred tax assets is reviewed at each reporting 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.

Current and deferred income taxes are recognized within income and expenses and are part of the profit for the year.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24. Taxes and Contributions (Continued)

(d) Transfer Prices

The Bank's tax statement for 2020 was not submitted to the Tax Administration until the preparation date of the Bank's Separate financial statements given that the tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e. until June 29/30 of the following year. The Bank has calculated tax effects based on the Corporate Income Tax Law of the Republic of Serbia but has not yet prepared the final report (study) of the transfer prices. However, the Bank's management believes that there will be no material effects on its financial statements for 2020 in this respect since so far there had been no adjustments in respect of the related party transactions and in 2020 the Bank had no significant changes in types of services exchanged with its related parties in comparison with the previous year.

4. INTEREST INCOME AND EXPENSES

	Year Ended December 31,	
	2020	**2019**
***Interest income from*:**		
Cash and balances held with the central bank at amortized cost (AC)	62,928	143,740
Securities measured at FVtOCI	294,904	268,506
Securities measured at FVtPL	59,363	36,759
Loans and receivables due from banks and other financial institutions measured at AC	11,994	63,479
Loans and receivables due from customers measured at AC	7,505,095	6,295,561
Other assets measured at amortized cost (AC)	14,360	10,855
Total interest income	**7,948,644**	**6,818,900**
Interest expenses from		
Cash and balances held with the central bank at amortized cost (AC)	-	(92)
Deposits and other liabilities due to banks, other financial institutions and the central bank at amortized cost (AC)	(191,306)	(214,930)
Deposits and other liabilities due to customers at amortized cost (AC)	(567,510)	(682,359)
Lease liabilities (Note 26.1.2)	(26,927)	(23,588)
Subordinated liabilities	(1,239)	-
Total interest expenses	**(786,982)**	**(920,969)**
Net interest income	**7,161,662**	**5,897,931**

4. INTEREST INCOME AND EXPENSES (Continued)

The following tables present data on the calculated and collected interest income:

	Interest income	Collected interest	Interest income from impaired receivables	Collected interest on impaired receivables
STAGE 1				
Securities	354,267	830,268	-	-
Loans and receivables due from banks and other financial institutions	80,855	83,984	-	-
Loans and receivables due from customers	6,909,254	4,814,848	2,907	2,371
Other receivables	5,242	2,572	255	255
STAGE 2				
Loans and receivables due from customers	227,607	135,809	-	-
Other receivables	13	7	-	-
STAGE 3				
Loans and receivables due from banks and other financial institutions	512	512	512	512
Loans and receivables due from customers	363,784	302,093	308,672	268,595
Other receivables	7,110	6,823	7,035	6,822
TOTAL:				
Securities	354,267	830,268	-	-
Loans and receivables due from banks and other financial institutions	81,367	84,496	512	512
Loans and receivables due from customers	7,500,645	5,252,750	311,579	270,966
Other receivables	12,365	9,402	7,290	7,077
Total for the year ended December 31, 2020	**7,948,644**	**6,176,916**	**319,381**	**278,555**

	Interest income	Collected interest	Interest income from impaired receivables	Collected interest on impaired receivables
STAGE 1				
Securities	305,265	526,316	-	-
Loans and receivables due from banks and other financial institutions	207,219	212,930	-	-
Loans and receivables due from customers	5,560,157	4,889,021	2,612	2,574
Other receivables	9,983	11,284	49	49
STAGE 2				
Loans and receivables due from customers	217,956	216,275	-	-
Other receivables	1	3	-	-
STAGE 3				
Loans and receivables due from banks and other financial institutions	-	-	-	2
Loans and receivables due from customers	517,447	495,338	462,864	450,077
Other receivables	872	23,026	872	24,235
TOTAL:				
Securities	305,265	526,316	-	-
Loans and receivables due from banks and other financial institutions	207,219	212,930	-	2
Loans and receivables due from customers	6,295,561	5,600,634	465,476	452,651
Other receivables	10,855	34,313	921	24,284
Total for the year ended December 31, 2019	**6,818,900**	**6,374,193**	**466,397**	**476,937**

5. FEE AND COMMISSION INCOME AND EXPENSES

	Year Ended December 31, 2020	2019
Fee and commission income from		
- Current account maintenance	966,376	779,007
- Payment card transactions	776,722	651,918
- Payment transfer operations	1,016,865	883,911
- Electronic banking	41,836	24,850
- Guarantees issued	91,385	74,586
- Other fees and commissions	365,969	255,641
Total	**3,259,153**	**2,669,913**
Fee and commission expenses		
- Payment transfer operations	(131,316)	(95,623)
- Payment card transactions	(350,996)	(347,300)
- Other fees and commissions	(137,185)	(114,861)
Total	**(619,497)**	**(557,784)**
Net fee and commission income	**2,639,656**	**2,112,129**

6. NET (LOSSES)/GAINS ON CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS

	Year Ended December 31, 2020	2019
Gains on the fair value changes of derivatives	415,676	462,733
Losses on the fair value changes of derivatives	(529,346)	(342,650)
Gains on the fair value changes of financial assets at FVtPL	15,855	17,900
Losses on the fair value changes of financial assets at FVtPL	(10,898)	(21,691)
Net (losses)/gains on the changes in the fair value of financial instruments	**(108,713)**	**116,292**

7. NET LOSSES ON DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	Year Ended December 31, 2020	2019
Losses on derecognition of financial instruments measured at FVtOCI	(34,465)	(46,958)
Gains on derecognition of financial instruments measured at FVtPL	23,658	3,783
Gains on derecognition of financial instruments measured at FVtOCI	9,715	2
Net losses on derecognition of financial instruments measured at fair value	**(1,092)**	**(43,173)**

8. NET GAINS ON RISK HEDGING

	Year Ended December 31, 2020	2019
Gains on the changes in the fair value of hedged items – changes in the value of gold and other precious metals	7,334	7,387
Net gains on risk hedging	**7,334**	**7,387**

9. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

	Year Ended December 31, 2020	2019
Foreign exchange gains		
Unrealized foreign exchange gains	1,344,379	1,632,477
Realized foreign exchange gains	846,634	1,163,561
On valuation of loans, receivables and liabilities	128,104	392,358
Total foreign exchange gains	**2,319,117**	**3,188,396**
Foreign exchange losses		
Unrealized foreign exchange losses	(1,172,748)	(1,499,449)
Realized foreign exchange losses	(484,088)	(751,202)
On valuation of loans, receivables and liabilities	(134,456)	(581,293)
Total foreign exchange losses	**(1,791,292)**	**(2,831,944)**
Net foreign exchange gains and positive currency clause effects	**527,825**	**356,452**

10. NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVtPL)

	Year Ended December 31, 2020	2019
Losses on modification of financial instruments	(309,069)	-
Impairment allowance of balance sheet exposures (Note 31)	(6,130,630)	(4,152,306)
Provisions for losses on off-balance sheet exposures (Note 35)	(804,667)	(220,578)
Impairment allowance of financial assets measured at fair value through other comprehensive income (FVtOCI)	(65,851)	(16,380)
Write-off of irrecoverable receivables	(15,736)	(3,766)
Total losses	**(7,325,953)**	**(4,393,030)**
Reversal of impairment allowance of balance sheet exposures (Note 31)	3,042,698	3,116,061
Reversal of provisions for losses on off-balance sheet exposures (Note 35)	665,612	203,070
Reversal of impairment allowance of financial assets measured at fair value through other comprehensive income (FVtOCI)	26,403	36,671
Recovery of receivables previously written off	279,636	203,876
Total gains	**4,014,349**	**3,559,678**
Net losses from impairment of financial assets not measured at fair value through profit or loss (FVtPL)	**(3,311,604)**	**(833,352)**

In accordance with its adopted accounting policies, the Bank calculates effects of modifications to the contractual cash flows of loans by comparing the net present value of the future cash flows to the gross carrying value (Note 3.3 (f)). If material, the modification effects are recognized in the income statement. The modification losses calculated by the Bank as of December 31, 2020 resulting from the changes in the present value of the cash flows of loan facilities subject to the government-imposed moratoria amounted to RSD 309,069 thousand. This effect was charged to the income statement by crediting the account of the departures from the loan gross carrying value.

Indirect write-off expenses and provisions for off-balance sheet items during 2020 include the effect of increasing expected credit losses due to deteriorating macroeconomic projections, and under the influence of the COVID-19 pandemic. The increase in expected credit losses on this basis is the result of both the increased expected probability of entering the status of default, and the increase in the portfolio where a significant increase in credit risk has been identified.

The Bank revised the projections of macroeconomic scenarios on a quarterly basis, in accordance with the available information, and the total amount of expenses recorded on this basis as at 31 December 2020 amounts to RSD 2,160,074 thousand.

11. NET GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	Year Ended December 31, 2020	2019
Gains on the sales of receivables	145,635	129,403
Gains on other significant modifications	95	-
	145,730	129,403
Losses on CHF to RSD debt conversion	-	(440,732)
Losses on the reorganization plan	(8,667)	(2,095)
	(8,667)	(442,827)
Net gains/(losses) on derecognition of financial assets measured at amortized cost	**137,063**	**(313,424)**

In accordance with the National Bank of Serbia's Memo no. K.G. 1565/2/19 dated June 7, 2019 entitled *Instruction to the Banks on the Accounting for Transactions Regarding Implementation of the Law on Conversion of Housing Loans Indexed in Swiss Francs*, in 2019 the Bank recorded a net loss on derecognition of CHF housing loans at the time of execution of loan conversion contracts with clients in the amount of RSD 440,732 thousand (an aggregate gain of RSD 666,134 thousand, of which reversal of impairment allowance amounted to RSD 570,851 thousand netted against the loss of RSD 1,106,866 thousand). The remainder of the net loss on derecognition effect refers to the sales of receivables and other significant modifications.

12. OTHER OPERATING INCOME

	Year Ended December 31, 2020	2019
Other income from operations	193,089	262,388
Rental income per operating lease arrangements (Note 26.1.5)	55,904	45,554
Dividend and profit sharing income	122,146	1,129
Total other operating income	**371,139**	**309,071**

13. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

	Year Ended December 31, 2020	2019
Net salaries	(2,369,737)	(2,007,617)
Net salary compensations	-	(717)
Taxes on salaries and compensations	(270,498)	(232,979)
Contributions to salaries and compensations	(574,716)	(477,601)
Considerations to temporary and seasonal employees	(2,773)	(1,959)
Other personal expenses	(125,969)	(31,123)
Provisions for employee retirement benefits	(1,970)	(31,657)
Reversal of provisions for employee retirement and other benefits	21,485	-
Total salaries, salary compensations and other personal expenses	**(3,324,178)**	**(2,783,653)**

14. DEPRECIATION AND AMORTIZATION CHARGE

	Year Ended December 31, 2020	2019
Amortization/depreciation charge – intangible assets, property and equipment	(658,539)	(496,321)
Depreciation charge – investment property	(2,504)	(1,900)
Depreciation charge – leased properties	(321,201)	(266,482)
Total depreciation and amortization charge	**(982,244)**	**(764,703)**

15. OTHER INCOME

	Year Ended December 31, 2020	2019
Reversal of unused provisions for liabilities	45,188	56,172
Reversal of other unused provisions	-	1,911
Gains on the sales of property, equipment and intangible assets	39,296	23,075
Write-off of liabilities	21,290	6,692
Surpluses	4,034	3,446
Other income	81,064	6,398,526
Total other income	**190,872**	**6,489,822**

Other income for 2019 includes all the effects of acquisition of assets and assumption of liabilities, presented in accordance with the Decision on Forms and Content of Items in Financial Statement Forms to be Completed by Banks (Official Gazette of RS nos. 71/2014, 135/2014, 101/2017 and 103/2018), which mostly comprise the bargain purchase gain in the amount of RSD 6,515,441 thousand, calculated as the difference between the net fair value of assets of Vojvođanska banka a.d. Novi Sad as of the acquisition date and the consideration transferred.

16. OTHER EXPENSES

	Year Ended December 31, 2020	2019
Cost of materials	(297,711)	(272,886)
Cost of production services	(796,595)	(935,268)
Rental costs per short-term lease contracts (Note 26.1.3)	(16,595)	(44,991)
Non-material costs	(2,120,673)	(2,025,826)
Taxes payable	(184,125)	(156,124)
Contributions payable	(509,206)	(438,463)
Other costs and charges	(62,426)	(45,599)
Costs of provisions for litigations	(420,765)	(211,997)
Other provisions – investments in subsidiaries	-	(401,096)
Losses on impairment of assets acquired in lieu of debt collection	-	(7,935)
Shortages and damages	(1,191)	(953)
Other expenses	(79,875)	(86,449)
Losses on impairment of building properties	(44,988)	(27,451)
Total other expenses	**(4,534,150)**	**(4,655,038)**

17. INCOME TAXES

	Year Ended December 31, 2020	2019
Current income tax expense	-	(48,900)
Deferred tax losses	(81,723)	(215,286)
Deferred tax gains	128,698	351,315
Total income taxes	**46,975**	**87,129**

17. INCOME TAXES (Continued)

a) Numerical Reconciliation between Total Tax Expense Stated in the Income Statement and the Product of the Accounting Results Multiplied by the Applicable Tax Rate

	December 31, 2020	December 31, 2019
(Loss)/profit before taxes	**(1,226,430)**	**5,895,741**
Income tax at the statutory tax rate of 15%	183,965	(884,361)
Tax loss available for carryforward		
Tax effects of expense adjustment in the tax statement	(41,315)	(68,193)
Tax effects of transfer pricing adjustments	(237)	(399)
Tax effects of income adjustment in the tax statement	86,828	56,634
Tax effects of adjustments due to IFRS 9 first-time adoption	57,328	35,801
Tax loss utilization effects	-	816,376
Temporary difference effects – deferred taxes, depreciation/amortization and revaluation for tax purposes	(2,365)	(16,758)
Temporary difference effects – deferred taxes, provisions for litigations	40,655	19,112
Temporary difference effects – deferred taxes, provisions for retirement benefits	(21,973)	64,523
Temporary difference effects – deferred taxes, IFRS 9	(57,328)	171,984
Temporary difference effects – deferred taxes, migration effects	-	(102,408)
Temporary difference effects – deferred taxes, other	443	(425)
Temporary difference effects – deferred taxes, other, CHF loans	87,543	-
Tax effects of capital gains	-	(4,757)
The effect of tax loss creation	(286,569)	-
Total income tax expenses	**46,975**	**87,129**

In the current accounting period the Bank had capital gains in the amount of RSD 11,320 thousand offset against the tax credit in the amount of 2% of the debt outstanding as determined in accordance with Article 4, para. 2 of the Law on Conversion of Housing Loans Indexed in Swiss Francs.

b) Tax (expense)/benefit

	December 31, 2020	December 31, 2019
(Loss)/profit before taxes	**(1,226,430)**	**5,895,741**
Expenses/(income) not recognized for tax purposes – temporary differences	(221,514)	308,585
Income not recognized for tax purposes – permanent differences	(462,516)	(467,538)
Taxable profit loss/(loss)	(1,910,460)	5,736,788
Capital gains	75,465	31,716
Utilization of tax losses carried forward	-	(5,442,505)
Utilization of tax credits carried forward	(75,465)	-
Taxable income base	-	325,999
Tax rate	15%	15%
Calculated income tax	-	(48,900)
Current income tax expense	-	**(48,900)**
Profit decrease through reversal of deferred tax assets	**46,975**	**136,029**
Total tax benefits	**46,975**	**87,129**
Net (loss)/profit	**(1,179,455)**	**5,982,870**

18. CASH AND BALANCES HELD WITH THE CENTRAL BANK

	December 31, 2020	December 31, 2019
In RSD		
Gyro account	2,629,694	5,814,432
Cash on hand	4,235,439	4,209,670
Deposited RSD liquid asset surpluses	11,560,527	12,224,706
Total cash funds in RSD	**18,425,660**	**22,248,808**
In foreign currencies		
Cash on hand	4,632,993	5,044,865
Other cash funds	28,725	18,108
Obligatory foreign currency reserve held with NBS	10,111,897	12,947,202
Total cash funds in foreign currencies	**14,773,615**	**18,010,175**
Gold and other precious metals	52,314	44,980
Total cash and balances held with the central bank	**33,251,589**	**40,303,963**

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, no. 76/2018) Pursuant to the aforesaid Decision, the obligatory reserve is to be calculated at the rate of 5% on the portion of the RSD base comprised of liabilities maturing within 2 years, i.e. within 730 days, and at the rate of 0% on the portion of the dinar base comprised of liabilities with maturities of over 2 years, i.e. over 730 days. The RSD base for the calculation of the obligatory reserve is the amount of average daily balance of RSD liabilities during the preceding calendar month, except RSD liabilities indexed to a currency clause as follows:

- non-indexed liabilities arising from RSD deposits, borrowings, securities and other RSD liabilities to domestic legal entities and retail bank clients; and
- non-indexed liabilities arising from RSD deposits, borrowings and other RSD liabilities to foreign creditors.

A portion of the obligatory foreign currency reserve was converted into obligatory RSD reserve at the rates of 38% and 30% for the obligatory reserves of up to and over 2 years, respectively.

The obligatory RSD reserve balance that had to be maintained from December 18, 2020 to January 17, 2021 amounted to RSD 12,689,252 thousand, where the calculated RSD portion of the reserve amounted to RSD 3,964,670 thousand, and the RSD equivalent of the reserve portion calculated in EUR and deposited in RSD amounted to RSD 8,724,582 thousand. The Bank is under obligation to calculate and maintain the average daily balance of the allocated obligatory RSD reserve on its gyro account over the accounting period. The calculated obligatory RSD reserve is deposited in RSD on the Bank's gyro account. As at December 31, 2020 the Bank was in full compliance with the regulations of the National Bank of Serbia with regard to the calculation and allocation of the obligatory RSD reserve.

The obligatory foreign currency reserve represents the minimum foreign currency reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, no. 76/2018), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates**:**

- 20% on the portion of the foreign currency reserve comprised of liabilities maturing within 2 years, i.e. up to 730 days, and exceptionally at the rate of 100% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause maturing within 2 years, i.e. up to 730 days; and
- 13% on the portion of the foreign currency reserve comprised of liabilities with maturities of over 2 years, i.e. over 730 days, and exceptionally at the rate of 100% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause with maturities of over 2 years, i.e. over 730 days.

The foreign currency base for the calculation of required reserve is the amount of average daily balance of foreign currency liabilities during the preceding calendar month and the amount of average daily balance of RSD liabilities from the preceding calendar month indexed to a currency clause as follows:

- liabilities arising from deposits, borrowings, securities and other foreign currency liabilities to foreign creditors;
- liabilities arising from deposits, borrowings, securities and other foreign currency liabilities to domestic legal entities and other liabilities;

18. CASH AND BALANCES HELD WITH THE CENTRAL BANK (Continued)

- foreign currency savings deposits held with other banks; and
- indexed liabilities arising from deposits, borrowings, securities and other RSD liabilities as well as indexed RSD deposits received through transactions the Bank performs on behalf of third parties if they exceed the amounts of loans the Bank disbursed from these deposits.

The Bank deposits the obligatory foreign currency reserve onto the foreign currency account with the National Bank of Serbia. As at December 31, 2019, the Bank was in full compliance with the regulations of the National Bank of Serbia with regard to the calculation and allocation of the obligatory foreign currency reserve. The obligatory foreign currency reserve balance that had to be maintained from December 18, 2020 to January 17, 2021 amounted to EUR 124,364 thousand.

In 2020, the Bank's short-term liquid asset surpluses were deposited with the National Bank of Serbia for periods from 1 to 5 days at the interest rate of 1.0% p.a. at the beginning of the year and at 0.1% at the end of the year, due to the decrease in the key policy rate of NBS by the total of 1.25% in 2020.

19. PLEDGED FINANCIAL ASSETS

	December 31, 2020	December 31, 2019
In foreign currency		
Financial assets for securitizing liability settlement	1,494,796	621,223
Total pledged financial assets as at December 31	**1,494,796**	**621,223**

At December 31, 2020, the Bank's pledged financial assets totaling RSD 1,494,796 thousand (December 31, 2019: RSD 621,223 thousand) include the amount of RSD 190,508 thousand relating to the deposits placed as collateral by the Bank as a member of VISA International Service Association and Master International Service Association. The deposits were placed for an unspecified period, at a variable interest rate of 1M USD LIBOR - 0.05%. The interest is calculated on a monthly basis. The amount of RSD 126,986 thousand pertains to a deposit placed as collateral with OTP Bank Hungary to securitize operations with derivative financial instruments. The interest on this deposit is accrued at a variable EONIA-indexed rate. The interest is calculated and paid on a monthly basis. The amount of RSD 1,177,302 thousand refers to the repo transactions – securities with 3-month maturities sold in regular auctions held by the National Bank of Serbia.

20. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2020	December 31, 2019
Receivables under derivatives held for trading – currency forward	-	383
Receivables under derivatives – currency swaps	29,921	9,069
Total receivables under derivative financial instruments	**29,921**	**9,452**

21. SECURITIES

	December 31, 2020	December 31, 2019
Securities measured at fair value through profit or loss (FVtPL)	7,975,389	2,237,539
Securities measured at fair value through the other comprehensive income (FVtOCI)	9,369,426	11,497,734
Impairment allowance of equity securities measured at FVtOCI (Note 31)	(116,293)	(153,311)
Total securities	**17,228,522**	**13,581,962**

21. SECURITIES (Continued)

21.1. Investments in Securities

	December 31, 2020	December 31, 2019
Securities measured at fair value through profit or loss (FVtPL)	***7,975,389***	***2,237,539***
Treasury bills and public sector bonds	7,949,968	2,205,671
Securities of other financial institutions	15,600	21,418
Public sector securities	17	30
Other corporate shares	9,804	10,420
Securities measured at fair value through the other comprehensive income (FVtOCI)	***9,369,426***	***11,497,734***
Public company shares	1,187,102	9,800
Corporate shares of non-residents	1,707	1,708
Other corporate shares	6,430	6,430
Treasury bills and public sector bonds	8,060,124	11,328,715
Shares of other customers	113,986	151,004
Shares of other customers - reclassified	77	77
Total securities	**17,344,815**	**13,735,273**
Less: Impairment allowance (Note 31)	(116,293)	(153,311)
Total securities, net	**17,228,522**	**13,581,962**

22. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2020	December 31, 2019
Loans per transaction accounts	13,860	-
Liquidity and working capital loans	2,996	-
Investment loans	-	1
Other loans	26,168	8
Other general-purpose deposits	-	300,394
Other receivables	87,094	57,644
Interest and fees per deposits and off-balance sheet items	6,416	6,024
Total in RSD at December 31	**136,534**	**364,071**
Foreign currency accounts	4,049,502	4,033,419
Foreign currency cheques	60	60
Overnight loans and deposits	-	1,528,708
Other loans	331,953	364,068
Other general-purpose deposits	764,915	412,135
Earmarked deposits placed in accordance with the regulations	4,703	4,704
Other receivables	1,673	1,674
Interest and fees per deposits and off-balance sheet items	560	575
Total in foreign currencies at December 31	**5,153,366**	**6,345,343**
Less: Impairment allowance (Note 31)	(334,032)	(366,104)
Total loans and receivables, net	**4,955,868**	**6,343,310**

As of December 31, 2020, the Bank's other general-purpose RSD deposits totaling RSD 764,915 thousand were placed with domestic commercial banks for periods from 3 to 6 months at interest rates ranging between 0.3% and 0.5% per annum.

23. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

23.1. Loans and receivables due from customers – breakdown per product

	December 31, 2020	December 31, 2019
In RSD:		
Loans per transaction accounts	1,628,356	2,158,592
Consumer loans	300	2,208
Loans for liquidity maintenance and working capital	48,776,900	40,200,659
Investment loans	27,114,426	17,010,014
Housing loans	21,408,118	19,865,374
Cash loans	58,360,874	47,295,765
Other RSD loans	11,205,991	11,920,862
Factoring recourse receivables	85,443	75,320
Receivables for acceptances, bills of exchange and payments per guarantees called on	50,721	102,719
Other loans and receivables	28,033	57,771
Interest and fees per deposits and off-balance sheet items	223,595	213,098
Total balance at December 31	**168,882,757**	**138,902,382**
In foreign currencies:		
Loans for payment of imported goods and services	7,706,517	7,208,963
Other loans	149,058	254,187
Other general-purpose deposits	-	15
Other loans and receivables	3,567	3,757
Interest and fees per deposits and off-balance sheet items	20	20
Total balance at December 31	**7,859,162**	**7,466,942**
Less: Impairment allowance (Note 31)	(6,748,764)	(4,766,992)
Total loans and receivables, net	**169,993,155**	**141,602,332**

On May 14, 2020, under Article 12 of the Decree on Establishing a Guarantee Scheme for Loans Provided by Local Banks to Business to Reduce the Effects of the Pandemic Disease Covid-19 caused by SARS-CoV-2 Virus (Official Gazette of RS no. 57/2020), the Bank executed the Guarantee Agreement for Providing Loans to Business to Reduce the Effects of the Pandemic Disease Covid-19 caused by SARS-CoV-2 Virus with the Republic of Serbia – the Ministry of Finance and the National Bank of Serbia. The loans at issue were approved for financing liquidity maintenance and working capital under the aforesaid Agreement. The aggregate amount of loan funds disbursed under the Agreement totaled RSD 12,895,082 thousand as of December 31, 2020.

23.2. Loans and receivables due from customers – breakdown per industry

	December 31, 2020	December 31, 2019
Public companies	15,079,738	12,660,299
Corporate customers	71,663,041	58,046,435
Entrepreneurs	1,966,917	1,018,395
Public sector	2,164,815	1,429,326
Retail customers	77,289,951	66,564,433
Non-residents	13,596	19,314
Agricultural producers	1,542,543	1,741,269
Other customers	272,554	122,861
Total loans and receivables due from customers	**169,993,155**	**141,602,332**

24. INVESTMENTS IN SUBSIDIARIES

	December 31, 2020	December 31, 2019

Equity investments in subsidiaries	474,131	474,131
Less: Impairment allowance	(32,715)	(32,715)
Total investments in subsidiaries	**441,416**	**441,416**

24. INVESTMENTS IN SUBSIDIARIES (Continued)

As of December 31, 2020, the Bank's investments in subsidiaries (gross) refer to:

	RSD '000	Interest %
OTP Lizing d.o.o., Beograd	270,348	60%
OTP Factoring Serbia d.o.o., Novi Sad	-	100%
OTP Investments d.o.o., Novi Sad	203,783	100%
	474,131	

Under Decision no. BD 45169/2019 of the Serbian Business Registers Agency dated May 16, 2019, the Bank acquired the sole (100%) ownership of the entity OTP Factoring Serbia d.o.o., Novi Sad amounting to RSD 1.

Under Decision no. BD 91170/2019 of the Serbian Business Registers Agency dated September 19, 2019, the ban sold 40% of its equity interest held in OTP Lizing d.o.o. Beograd amounting to RSD 180,232 thousand.

At its session held on January 28, 2019, the Assembly of OTP Banka Srbija a.d., Novi Sad enacted the Decision on Accepting the Merger of Vojvođanska banka a.d., Novi Sad. The status change of merger by acquisition was conducted as of April 26, 2019, when the said merger was recorded within the Business Entity Register. The retained earnings include the retained earnings realized from the acquisition date up to the merger date, including the bargain purchase gain of RSD 6,515,441 thousand (Note 15), calculated as the difference between the net fair value of assets as of the acquisition date and the consideration transferred in the amount of RSD 14,369,818 thousand (Note 2.1).

25. INTANGIBLE ASSETS

	December 31, 2020	December 31, 2019
Licenses	269,452	254,596
Software	896,874	733,039
Other intangible assets	494,980	494,980
Total intangible assets	**1,661,306**	**1,482,615**
Accumulated amortization of other intangible assets	(230,834)	(118,749)
Accumulated amortization of intangible assets	(789,385)	(728,200)
Intangible assets, net book value	**641,087**	**635,666**

Other intangible assets pertain to the customer database and brand name determined on December 1, 2017 within the business combination of acquisition of Vojvođanska banka a.d., Novi Sad by OTP Group in accordance with IFRS 3. The customer database is amortized over the period of 11 years and the brand name until April 2021.

26. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2020	December 31, 2019
Land	361	500
Buildings	7,714,269	7,759,685
Equipment	4,408,833	4,042,145
Equipment in progress	214,927	90,844
Leasehold improvements	272,544	370,135
Total property, plant and equipment	**12,610,934**	**12,263,309**
Accumulated depreciation of property, plant and equipment	(3,255,931)	(2,741,197)
Property, plant and equipment, net book value	**9,355,003**	**9,522,112**

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

26.1. Movements on property, plant and equipment and intangible assets:

	Land and Buildings	Equipment and Other Assets	Leases – ROU Assets	Equipment in Progress	Intangible Assets (Note 25)	Total
Cost						
Balance at January 1, 2020	8,130,320	2,727,695	1,314,450	90,844	1,482,615	13,745,924
Additions	8,833	17,049	31,308	816,386	196,586	1,070,159
Transfers from investments in progress	91,960	260,639	333,837	(686,436)	-	-
Transfers from investments in progress to intangible assets	-	-	-	-	-	-
Decrease under IFRS 16 COVID-19 concessions	-	-	(34,430)	-	-	(34,430)
Reclassification to non-current assets held for sale	(2,838)	-	-	-	-	(2,838)
Sales	(127,440)	-	(39,128)	-	-	(166,568)
Shortages	-	(65)	-	-	-	(65)
Disposal and retirement	(113,663)	(60,579)	(141,940)	(5,867)	(17,895)	(339,944)
Balance at December 31, 2020	**7,987,172**	**2,944,739**	**1,464,097**	**214,927**	**1,661,306**	**14,272,238**
Accumulated depreciation and amortization						
Balance at January 1, 2020	749,971	1,670,007	321,219	-	846,949	3,588,146
Charge for the year (Note 14)	140,447	328,158	321,201	-	189,934	979,740
Other	10,244	-	7,489	-	-	17,733
Impairment	21,949	-	-	-	1,231	23,180
Reclassification to non-current assets held for sale	(105)	-	-	-	-	(105)
Decrease under IFRS 16 COVID-19 concessions	-	-	(23,873)	-	-	(23,873)
Sales	(33,799)	-	-	-	-	(33,799)
Shortages	-	(41)	-	-	-	(41)
Disposal and retirement	(106,719)	(60,578)	(89,639)	-	(17,895)	(274,831)
Balance at December 31, 2020	**781,988**	**1,937,546**	**536,397**	**-**	**1,020,219**	**4,276,150**
Net book value at December 31, 2020	**7,205,184**	**1,007,192**	**927,700**	**214,927**	**641,087**	**9,996,090**

	Land and Buildings	Equipment and Other Assets	Leases – ROU Assets	Equipment in Progress	Intangible Assets (Note 25)	Total
Cost						
Balance at January 1, 2019	1,692,725	1,923,799	426,421	60,952	620,539	4,724,436
Merger by acquisition	6,483,005	660,340	803,174	-	750,817	8,697,336
Additions	63,639	19,661	161,000	207,598	111,259	563,157
Transfers from investments in progress	-	177,706	-	(177,706)	(87,853)	(87,853)
Transfers from investments in progress to intangible assets	-	-	-	-	87,853	87,853
Sales	(31,629)	(14,495)	(6,738)	-	-	(52,862)
Shortages	-	(826)	-	-	-	(826)
Disposal and retirement	(77,420)	(38,490)	(69,407)	-	-	(185,317)
Balance at December 31, 2019	**8,130,320**	**2,727,695**	**1,314,450**	**90,844**	**1,482,615**	**13,745,924**
Accumulated depreciation and amortization						
Balance at January 1, 2019	532,828	1,275,955	-	-	521,728	2,330,511
Merger by acquisition	171,428	181,184	71,102	-	210,780	634,494
Charge for the year (Note 14)	116,196	265,684	266,483	-	114,441	762,804
Sales	(818)	(14,228)	(2,583)	-	-	(17,629)
Shortages	-	(796)	-	-	-	(796)
Disposal and retirement	(69,663)	(38,312)	(11,032)	-	-	(119,007)
Adjustment to the depreciation charge	-	520	(2,751)	-	-	(2,231)
Balance at December 31, 2019	**749,971**	**1,670,007**	**321,219**	**-**	**846,949**	**3,588,146**
Net book value at December 31, 2019	**7,380,349**	**1,057,688**	**993,231**	**90,844**	**635,666**	**10,157,778**

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

26.1. Movements on property, plant and equipment and intangible assets (Continued):

Due to the incomplete cadastral registers, as of December 31, 2020, the Bank had no proper title deeds for building properties with the net book value of RSD 414,159 thousand (December 31, 209: RSD 385,639 thousand). The management is taking all the necessary action in order to obtain proper title deeds.

1) Right-of-use assets recognized in the Bank's statement of financial position:

	December 31, 2020	December 31, 2019
Leased assets per lease type		
Assets - property	927,700	993,231
Total leased assets	**927,700**	**993,231**

Movements on the Bank's ROU assets:

IFRS 16	**Buildings**	**Equipment**	**Total**
Balance at January 1, 2020	1,314,144	306	1,314,450
Additions	31,308	-	31,308
Transfers from investments in progress	333,837	-	333,837
Decrease under IFRS 16 COVID-19 concessions	(34,430)	-	(34,430)
Reclassification to non-current assets held for sale	(181,068)	-	(181,068)
Balance at December 31, 2020	**1,463,791**	**306**	**1,464,097**
Accumulated depreciation and amortization			
Balance at January 1, 2020	**320,913**	**306**	321,219
Charge for the year (	321,201	-	321,201
Decrease under IFRS 16 COVID-19 concessions	(23,873)	-	(23,873)
Reclassification to non-current assets held for sale	(89,639)	-	(89,639)
Other	7,489	-	7,489
Balance at December 31, 2020	**536,091**	**306**	**536,397**
Net book value at December 31, 2020	**927,700**	**-**	**927,700**

The Bank presents the right-of-use assets within the statement of financial position for the following underlying assets:

- commercial building, business premises, offices,
- branch office building,
- ATM space, and
- advertising space.

The average lease terms (useful lives of the presented right-of-use assets, viewed as from January 1, 2019):

- commercial building, business premises, offices ~ 2 years,
- branch office building ~ 4 years
- ATM space ~ 2.5 years, and
- advertising space ~ 4.8 years.

2) Effects recognized within the income statement for the period from January 1 through December 31, 2020:

	December 31, 2020
Depreciation charge for property leased	321,201
Interest expense (Note 4)	26,927
Lease expenses from short-term lease arrangements (Note 16)	16,595
Expenses per variable payments not included in the lease liability measurement	285
Income from sublease of ROU assets	9,480

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

26.1. Movements on property, plant and equipment and intangible assets (Continued):

3) The Bank's commitments per operating/finance leases:

Future finance lease payments under IFRS 16 in arrangements where the Bank is the lessee are presented in the table below:

	December 31, 2020
Within a year	**299,723**
- principal	277,678
- interest	22,045
Within 2 years	**207,435**
- principal	190,500
- interest	16,935
Within 3 years	**154,164**
- principal	141,532
- interest	12,631
Within 4 years	**101,988**
- principal	92,211
- interest	9,777
Within 5 years	**75,284**
- principal	67,561
- interest	7,722
Within a period of over 5 years	**205,320**
- principal	186,142
- interest	19,179
Total finance lease liabilities	**1,043,914**

	December 31, 2019
Within a year	**340,295**
- principal	316,246
- interest	24,049
Within 2 years	**236,874**
- principal	219,193
- interest	17,681
Within 3 years	**176,195**
- principal	163,498
- interest	12,697
Within 4 years	**114,088**
- principal	105,224
- interest	8,864
Within 5 years	**58,315**
- principal	51,716
- interest	6,599
Within a period of over 5 years	**163,590**
- principal	138,581
- interest	25,009
Total finance lease liabilities	**1,089,357**

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

26.1. Movements on property, plant and equipment and intangible assets (Continued):

4) Lessor lease accounting – the Bank as the lessor

Operating lease arrangements involving the Bank as the lessor relate to the lease of the Bank's investment property to lessees (tenants) for periods from 1 to 40 years.

The Bank's future operating lease receivables:

	December 31, 2020
Within a year	41,877
Within 2 years	26,623
Within 3 years	10,916
Within 4 years	8,647
Within 5 years	4,418
Within a period of over 5 years	7,725
Total operating lease receivables	**100,207**

	December 31, 2019
Within a year	53,411
Within 2 years	34,348
Within 3 years	20,064
Within 4 years	15,708
Within 5 years	6,830
Within a period of over 5 years	7,560
Total operating lease receivables	**137,921**

The Bank recognizes operating lease payments received as rental income on a straight-line basis over the lease term. The Bank's total rental income per operating lease arrangements amounted to RSD 55,904 thousand in 2020 (2019: RSD 45,554 thousand) (Note 12).

27. INVESTMENT PROPERTY

	December 31, 2020	December 31, 2019
Investment property	162,209	167,520
Sales	(2,555)	-
Accumulated depreciation	(9,529)	(5,312)
Investment property, net book value	**150,125**	**162,208**

28. DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2020	December 31, 2019
Deferred tax assets	400,041	350,700
Deferred tax assets, total balance	**400,041**	**350,700**

28. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

	Temporary difference amount	Deferred tax amount
Deferred tax assets per provisions made for litigations	645,149	96,772
Deferred tax assets per unpaid public duties and unpaid employee benefits	23,234	3,485
Deferred tax assets per provisions made for employee retirement benefits	646,616	96,993
Deferred tax assets per first-time adoption of IFRS 9	764,374	114,656
Deferred tax assets per equity instruments	3,942	591
Deferred tax assets per conversion of CHF housing loans	583,622	87,544
Total balance at December 31, 2020	**2,666,937**	**400,041**

	Temporary difference amount	Deferred tax amount
Deferred tax assets per provisions made for litigations	374,113	56,117
Deferred tax assets per unpaid public duties and unpaid employee benefits	20,277	3,042
Deferred tax assets per provisions made for employee retirement benefits	793,105	118,966
Deferred tax assets per first-time adoption of IFRS 9	1,146,561	171,984
Deferred tax assets per equity instruments	3,940	591
Total balance at December 31, 2019	**2,337,996**	**350,700**

	December 31, 2020	December 31, 2019
Deferred tax liabilities	514,891	512,044
Deferred tax liabilities, total balance	**514,891**	**512,044**

	Temporary difference amount	Deferred tax amount
Deferred tax liabilities per depreciable assets	3,206,317	480,948
Deferred tax liabilities per debt securities	160,943	24,141
Deferred tax liabilities – actuarial gains	65,346	9,802
Total balance at December 31, 2020	**3,432,606**	**514,891**

29. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

	December 31, 2020	December 31, 2019
Non-current assets held for sale	6,164	3,372
Non-current assets held for sale, total balance	6,164	**3,372**

Non-current assets held for sale as of December 31, 2020 comprise the following:

Building properties	Area	Amount
Business premises, Knjaževačka bb., Niš	15.16 m²	987
Land in Poljna, Trstenik cadaster lot no. 4051	668,200 m²	2,444
Premises in Šid, Kneza Miloša	150 m²	2,733
	Total:	**6,164**

29. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS (Continued)

Properties classified as non-current assets held for sale are available for immediate sale in their current condition.

30. OTHER ASSETS

	December 31, 2020	December 31, 2019
In RSD		
RSD fee and commission receivables per other assets	22,482	19,612
RSD trade receivables from sales	11,175	17,099
Interest receivables per other assets	69	72
Total receivables for fees, sales, and other assets	33,726	**36,783**
Less: Impairment allowance	(23,716)	(21,672)
Receivables for fees, sales, and other assets, net	**10,010**	**15,111**
Receivables per advances paid to suppliers	15,936	22,237
Receivables per advances paid for property and equipment	2,356	3,303
RSD receivables from employees	12,774	35,318
Receivables arising from prepaid taxes and contributions	1,740	5,098
Other RSD receivables from operations	421,167	195,040
RSD suspense and temporary accounts	(9,375)	236,082
RSD receivables in settlement	575,275	639,149
Total other receivables and advances paid	**1,019,873**	**1,136,227**
Less: Impairment allowance	(184,338)	(155,169)
Other receivables and advances paid, net	835,535	**981,058**
Inventories	2,244	2,312
Assets acquired in lieu of debt collection	126,557	216,423
Tools and fixtures in use	2,967	3,878
Total inventories	**131,768**	**222,613**
Less: Impairment allowance	(48,198)	(65,784)
Inventories, net	**83,570**	**156,829**
In foreign currencies		
FX fee and commission receivables per other assets	57	84
Other receivables from regular operations for determining FX income	6,030	5,876
Total other receivables	**6,087**	**5,960**
Less: Impairment allowance	(5,989)	(5,874)
Other receivables, net	**98**	**86**
Receivables per advances paid to suppliers	13,007	12,984
Receivables per advances paid for property and equipment	4,935	5,264
FX receivables from employees	13,169	13,176
Other FX receivables from operations	6,536	6,816
FX suspense and temporary accounts	(10,242)	(16,448)
FX receivables in settlement	43,638	103,339
Total other receivables and advances paid	**71,043**	**125,131**
Less: Impairment allowance	(23,590)	(16,387)
Other receivables and advances paid, net	**7,453**	**108,744**
Deferred other RSD expenses	141,906	160,067
Other RSD prepayments	4,916	23,150
Deferred FX interest expenses	113	113
Deferred other FX expenses	69,731	25,703
Total accrued receivables	**216,666**	**209,033**
Total other assets	**1,193,332**	**1,470,861**

30. OTHER ASSETS (Continued)

Receivables in settlement for the most part pertain to the receivables from the card operations in the amount of RSD 597,652 thousand (December 31, 2019: RSD 717,866 thousand).

Deferred other RSD expenses relate to the deferred insurance premium expenses of RSD 71,586 thousand (December 31, 2019: RSD 117,368 thousand).

Movements on tangible assets acquired in lieu of debt collection

Types of assets acquired in lieu of debt collection	Residential property	Other property	Other assets	Total
Gross carrying value, beginning of year	196,787	13,840	5,796	216,423
Accumulated loss (impairment), beginning of the period	(56,110)	-	(5,796)	(61,906)
Additions	-	-	-	-
Sales	(59,355)	-	-	(59,355)
Accumulated loss (impairment)	(13,796)	(41)	-	(13,837)
Gross carrying value, end of year	137,432	13,840	5,796	157,068
Net book value at December 31, 2020	**67,526**	**13,799**	**-**	**81,325**

Types of assets acquired in lieu of debt collection	Residential property	Other property	Other assets	Total
Gross carrying value, beginning of year	32,250	13,237	5,796	51,283
M&A - gross carrying value	172,418	774	-	173,192
Sales	(7,881)	(171)	-	(8,052)
Gross carrying value, end of year	196,787	13,840	5,796	216,423
Accumulated loss (impairment)	(35,684)	(10,985)	(5,796)	(52,465)
M&A - accumulated loss (impairment)	(9,441)	-	-	(9,441)
Net book value at December 31, 2019	**151,662**	**2,855**	**-**	**154,517**

Due to incomplete real estate register, as of December 31, 2020, the Bank had no title deeds/real estate cadaster excerpts for the properties acquired in lieu of debt collection with the net book value of RSD 38,517 thousand. The Bank's management has been undertaking all the necessary action to obtain the said documents.

31. IMPAIRMENT ALLOWANCE PER BALANCE SHEET ITEMS

	December 31, 2020	December 31, 2019
Impairment allowance of:		
Securities (Note 21)	116,293	153,311
Loans and receivables due from banks and other financial institutions (Note 22)	334,032	366,104
Loans and receivables due from customers (Note 23)	6,748,764	4,766,992
Other assets (Note 30)	237,633	199,101
Total impairment allowance at the reporting date	**7,436,722**	**5,485,508**

31. IMPAIRMENT ALLOWANCE PER BALANCE SHEET ITEMS (Continued)

Movements on the imapirment allowance accounts in 2020 and 2019 were as follows:

	Accumulated impairment allowance, balance at beginning of year	Accumulated impairment allowance of the merged entities at April 26, 2019	Impairment allowance charge for the period	Reversal of impairment allowance	Write-offs, derecognition, sales of receivables	Conversion of CHF housing loans	Foreign exchange differences	Accumulated impairment allowance, balance at year-end
As at December 31, 2020								
Pledged financial assets								
Securities	153,311	-	-	-	(37,018)	-	-	116,293
Loans and receivables due from banks and other financial institutions	366,104	-	6,406	(6,363)	0	-	(32,115)	334,032
Loans and receivables due from customers	4,766,992	-	5,982,534	(3,001,064)	(999,474)	-	(224)	6,748,764
Other receivables	199,101	-	141,690	(35,272)	(67,581)	-	(305)	237,633
Total	**5,485,508**	**-**	**6,130,630**	**3,042,698**	**1,104,073**	**-**	**(32,644)**	**7,436,722**
As at December 31, 2019								
Pledged financial assets	-	892	-	(889)	-	-	(3)	-
Securities	490,849	-	1,062	-	(338,625)	-	25	153,311
Loans and receivables due from banks and other financial institutions	362,453	192	10,613	(12,019)	(435)	-	5,300	366,104
Loans and receivables due from customers	3,569,267	1,870,689	3,948,146	(3,035,876)	(1,013,967)	(570,851)	(416)	4,766,992
Other receivables	74,581	91,972	193,547	(67,277)	(93,706)	-	(16)	199,101
Total	**4,497,150**	**1,963,745**	**4,153,368**	**(3,116,061)**	**(1,446,733)**	**(570,851)**	**4,890**	**5,485,508**

32. LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2020	December 31, 2019
Currency forward	7,366	189
Currency swap	153,358	45,301
Total liabilities under derivative financial instruments	**160,724**	**45,490**

33. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

	December 31, 2020	December 31, 2019
In RSD		
Transaction deposits	966,255	472,154
Earmarked deposits	204,429	460,099
Other deposits	5,111,513	2,824,526
Overnight deposits	590,000	1,580,039
Borrowings per repo transactions	1,104,776	-
Other financial liabilities	463,220	480,949
RSD deposits and other liabilities	**8,440,193**	**5,817,767**
In foreign currencies		
Other earmarked deposits	33	-
Transaction deposits	634,988	561,801
Earmarked deposits	135,243	106,074
Other deposits	29,796,563	31,076,018
Overnight deposits	95,665	1,311,554
Borrowings	10,582,777	3,527,815
Other financial liabilities	24,656	42,087
Foreign currency deposits and other liabilities	**41,269,925**	**36,625,349**
Total deposits and other liabilities	**49,710,118**	**42,443,116**

33. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (Continued)

In 2020 the Bank received short-term RSD deposits in the domestic interbank market, mostly for period from one day to a month, at market interest rates exhibiting a downward trend and ranging from 1.05% to 0.1%. As of December 31, 2020, RSD overnight deposits totaling RSD 590,000 thousand were received from the parent bank. Other RSD deposits totaling RSD 5,111,513 thousand comprised deposits of other financial institutions with diverse maturities (from a month to 3 years), at the weighted average interest rate of 2.0% per annum.

In the repo auction organized by the National Bank of Serbia, the Bank sold long-term securities from its portfolio for a period of three months and thus ensured additional liquid assets of RSD 1,104,776 thousand at an interest rate of 0.25%.

As of December 31, 2020, other foreign currency deposits mostly comprised deposits placed by the parent bank and other Group members in the amount of RSD 26,879,414 thousand, the major portion of which were EUR deposits of RSD 26,337,965 thousand (EUR 224,000 thousand), placed with the Bank for periods between 4 days and 9 months at interest rates ranging from -0.27% to 0.53% for EUR deposits. Within this line item, a portion of RSD 2,822,079 thousand pertains to USD deposits (USD 29,500 thousand) collected in the domestic interbank market at the weighted average interest rate of 0.36% per annum.

As of December 31, 2020, the Bank had liabilities in respect of a foreign currency long-term borrowing obtained from OTP Financing Malta totaling RSD 10,582,777 thousand, at a variable interest rate (linked to 3M EURIBOR).

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

34.1. Deposits and other liabilities due to customers – breakdown per product

	December 31, 2020	December 31, 2019
In RSD		
Transaction deposits	52,129,171	37,558,927
Savings deposits	4,440,121	4,395,243
Deposits securitizing approved loans	194,121	146,904
Earmarked deposits	962,684	1,149,834
Other deposits	14,530,921	16,813,632
Overnight deposits	7,744	775,495
Other financial liabilities	190,562	178,376
RSD deposits and other liabilities	**72,455,324**	**61,018,411**
In foreign currencies		
Transaction deposits	32,708,394	26,207,763
Savings deposits	41,412,299	43,958,842
Deposits securitizing approved loans	1,494,843	1,851,791
Earmarked deposits	1,277,615	1,174,441
Other deposits	748,914	840,620
Other financial liabilities	3,014,455	1,616,806
Foreign currency deposits and other liabilities	**80,656,520**	**75,650,263**
Total deposits and other liabilities	**153,111,844**	**136,668,674**

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

34.2. Deposits and other liabilities due to customers – breakdown per customer segment

	December 31, 2020	December 31, 2019
Public companies	3,084,018	2,427,849
Corporate customers	34,361,458	28,587,514
Entrepreneurs	5,264,009	3,967,398
Public sector	565,021	2,355,131
Retail customers	82,531,427	76,208,223
Non-residents	4,732,158	3,677,862
Agricultural producers	4,275,049	2,482,685
Other customers	18,298,704	16,962,012
Total deposits and other liabilities	**153,111,844**	**136,668,674**

35. SUBORDINATED LIABILITIES

	December 31, 2020	December 31, 2019
Subordinated liabilities in foreign currency	1,175,802	-
Accrued interest payable on subordinated liabilities in foreign currency	1,239	-
Total subordinated liabilities	**1,177,041**	**-**

36. PROVISIONS

	December 31, 2020	December 31, 2019
Provisions for potential litigation losses	645,149	374,113
Provisions for losses per off-balance sheet items	237,454	98,578
Provisions for retirement benefits	214,045	235,670
Restructuring provisions	447,571	583,106
Total provisions	**1,544,219**	**1,291,467**

36. PROVISIONS (Continued)

Movements on provisions are presented in the table below:

	2020	2019
Provisions for potential litigation losses		
Balance as at January 1	374,113	66,519
Increase due to merger by acquisition	-	180,117
Charge for the year	420,765	211,997
Reversal of provisions	(45,188)	(56,172)
Release of provisions – payment	(104,541)	(28,348)
Balance as at December 31	**645,149**	**374,113**
Provisions for losses per off-balance sheet items		
Balance as at January 1	98,578	47,836
Increase due to merger by acquisition	-	33,404
Charge for the year (Note 10)	804,667	220,578
Reversal of provisions (Note 10)	(665,612)	(203,070)
Foreign exchange effects	(179)	(170)
Balance as at December 31	**237,454**	**98,578**
Provisions for retirement benefits		
Balance as at January 1	235,670	36,786
Increase due to merger by acquisition	-	207,014
Actuarial losses	(1,727)	(19,446)
Charge for the year	1,970	15,172
Reversal of provisions	(21,485)	-
Release of provisions – payment	(383)	(3,856)
Balance as at December 31	**214,045**	**235,670**
Other restructuring provisions		
Balance as at January 1	586,106	139,612
Increase due to merger by acquisition	-	125,491
Release of provisions – payment	(138,535)	(81,185)
Reversal of provisions	-	(1,911)
Charge for the year	-	401,099
Balance as at December 31	**447,571**	**583,106**

The Bank calculated and stated provisions for retirement employee benefits as amounting to RSD 214,045 thousand as of December 31, 2020 (December 31, 2019: RSD 235,670 thousand). During 2020, the Bank released these provisions, i.e., paid out retirement benefits.

Upon calculating provisions for retirement benefits in 2020, the Bank used the following assumptions:

(1) Discount rate – the Bank used the rate of 3% annually, i.e., the long-term interest rate on high-quality debt securities – bonds of the Republic of Serbia and the Ministry of Finance's treasury bills;
(2) Estimated annual salary growth rate of 7% annually;
(3) Estimated employee turnover rate of 7.5%; and
(4) Estimated number of employees, i.e., their survivorship up to the retirement from the Bank, in accordance with the Law on Pension and Disability Insurance.

Other provisions for restructuring were made in the amount of RSD 447,571 thousand under IAS 37 and in accordance with the Plan for the Network and Staff Reorganization and Restructuring in the commenced process of integration with OTP Bank.

37. CURRENT TAX ASSETS AND LIABILITIES

	December 31, 2020	December 31, 2019
Current tax assets	40,464	-
Current tax liabilities	-	48,900
Total current tax assets/(liabilities)	**40,464**	**48,900**

The Bank's current tax assets arose in 2020 as a result of the Bank's regular monthly advance payments of the corporate income tax. The amount of these assets is credited to the account of receivables for current tax assets. As the Bank incurred a loss at the end of 2020, the said tax assets will be utilized in the forthcoming tax period.

38. OTHER LIABILITIES

	December 31, 2020	December 31, 2019
In RSD		
Fees and commission payable per other liabilities	13,171	6,209
Trade payables	124,546	108,522
Advances received	26,810	26,720
Lease liabilities	824,375	773,197
Dividend payment liabilities	-	1,636
Liabilities per managed funds	103	31
Other liabilities from operations	225,471	228,828
Liabilities in settlement	187,994	187,704
Total other liabilities	**1,402,470**	**1,332,847**
Net salaries	62	62
Other liabilities to employees	31	441
Total liabilities to employees	**93**	**503**
Value added tax payable (Note 38.1)	31,197	34,640
Other taxes and contributions payable (Note 38.1)	8,203	6,431
Total taxes and contributions payable	**39,400**	**41,071**
Total liabilities to employees, taxes and contributions payable	**39,493**	**41,574**
Accrued liabilities per other expenses	510,640	448,606
Deferred interest income	8,460	7,840
Deferred other income	52,407	53,392
Other accruals	92	124
Total accruals	**571,599**	**509,962**
In foreign currencies		
Fees and commission payable per other liabilities	5,907	9,948
Trade payables	93,877	13,079
Advances received	7,923	27,143
Lease liabilities	131,249	222,424
Liabilities per managed funds	838	1,229
Other liabilities from operations	1	1
Liabilities in settlement	4,675	4,596
Temporary and suspense accounts	6	6
Total other liabilities	**244,476**	**278,426**
Accrued liabilities for other expenses	30,837	25,797
Deferred other income	3,037	7,020
Other accruals	5,026	883
Total accruals	**38,900**	**33,700**
Total other liabilities	**2,296,938**	**2,196,509**

Accrued liabilities for other expenses in RSD mostly refer to the labilities for accrued bonus of RSD 180,981 thousand (December 31, 2019: RSD 168,762 thousand).

38. OTHER LIABILITIES (Continued)

38.1. Taxes Payable

	December 31, 2020	December 31, 2019
Income tax payable	-	48,900
Value added tax payable	31,197	34,640
Payroll taxes charged to the Bank	-	29
Other contributions charged	64	65
Other taxes and contributions payable	8,139	6,338
Total taxes payable	**39,400**	**89,972**

38.2. Dividend Payment Liabilities

	December 31, 2020	December 31, 2019
Payment of dividend – preferred shares for 2018	-	1,636
Total dividend payment liabilities	**-**	**1,636**

As December 31, 2020, the Bank had no preferred cumulative shares outstanding (Note 39).

39. EQUITY

The Bank's equity is includes issued capital, reserves, share issue premium, retained earnings and accumulated losses. The Bank's share capital is comprised of regular (common stock) shares.

	December 31, 2020	December 31, 2019
SHARE CAPITAL		
Ordinary (common stock) shares	31,607,808	31,607,808
Cumulative preferred shares	-	-
Total	**31,607,808**	**31,607,808**
Share issue premium	2,563,562	2,563,562
Total share capital	**34,171,370**	**34,171,370**
RESERVES		
Reserves from profit	-	-
Total reserves from profit	**-**	**-**
Unrealized gains on changes in the fair value of debt instruments	136,802	135,483
Actuarial gains per defined employee benefit plans	55,543	54,076
Total unrealized gains	**192,345**	**189,559**
Unrealized losses on changes in the fair value of equity instruments	(3,942)	(3,942)
Unrealized gains on deferred taxes on equity instruments	592	592
Total unrealized losses	(3,350)	(3,350)
Total reserves	**188,995**	**186,209**
RETAINED EARNINGS		
Prior years' retained earnings	-	-
Current year's retained earnings	-	5,982,870
Total retained earnings	**-**	**5,982,870**
Current year's loss	**(1,179,455)**	
Prior years' accumulated losses	(1,780,469)	**(7,763,339)**
Prior years' accumulated losses of the merged entity	(734,733)	(734,733)
Total prior years' accumulated losses	**(2,515,202)**	**(8,498,072)**
TOTAL EQUITY at December 31	**30,665,708**	**31,842,377**

39. EQUITY (Continued)

As of December 31, 2020, the Bank had 638,026 ordinary shares with the par value of RSD 49,540 per share. All the Bank's shares issued and subscribed were fully paid in. Holders of the Bank's ordinary shares are entitled to dividend payment according to the relevant decision on profit distribution enacted by the Bank's Shareholder Assembly. They also have voting rights at the General Meeting of the Bank's Assembly in accordance with the effective legislation and the Bank's Statute.

Revaluation reserves were formed from changes in the fair value (fair value adjustments) of financial assets, i.e., securities measured at fair value through other comprehensive income (FVtOCI).

Shareholder structure

Given the fact that on November 20, 2018 the squeeze-out procedure was successfully completed, and all the remaining shares were purchased from non-controlling shareholders, OTP Bank Plc. Budapest became and remained the sole (100%) owner of the Bank's shares as of December 31, 2020.

			December 31, 2020
Ordinary shares			
Shareholder	**Book Value in RSD '000**	**Share Count**	**% of Interest**
OTP Bank Plc Budapest, Hungary	31,607,808	638,026	100
Total ordinary shares	**31,607,808**	**638,026**	**100**

			December 31, 2019
Ordinary shares			
Shareholder	**Book Value in RSD '000**	**Share Count**	**% of Interest**
OTP Bank Plc Budapest, Hungary	31,607,808	638,026	100
Total ordinary shares	**31,607,808**	**638,026**	**100**

39.1 Breakdown of the Bank's other comprehensive income net of taxes

	December 31, 2020	December 31, 2019
Actuarial gains on the defined benefit plans	1,468	23,197
Net gains on the change in the fair value of equity instruments at FVtOCI	-	394
Net (losses)/gains on the change in the fair value of debt instruments at FVtOCI	(38,129)	90,489
Net gains/(losses) on the change in the fair value of equity instruments at FVtOCI due to impairment	39,447	(21,352)
Other comprehensive income, net of taxes	**2,786**	**92,728**

40. COMMITMENTS AND CONTINGENT LIABILITIES

40.1. The Bank's Commitments

	December 31, 2020	December 31, 2019
Guarantees issued	8,065,709	8,801,169
Letters of credit issued	12,187	79,170
Total guarantees and other sureties issued	**8,077,896**	**8,880,339**
Commitments for undrawn RSD loans and facilities, irrevocable without prior notice	2,820,614	3,420,971
Other irrevocable commitments in RSD	114,052	136,953
Total irrevocable commitments	**2,934,666**	**3,557,924**
Commitments for undrawn RSD loans and facilities, revocable	29,147,224	20,572,868
Total commitments	**40,159,786**	**33,011,131**

40. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

40.1. The Bank's Commitments (Continued)

For commitments and contingent liabilities recorded within the off-balance sheet items, the Bank assessed and made provisions charged to profit and loss in the amount of RSD 237,454 thousand (2019: RSD 98,578 thousand), presented as the provisions for losses per off-balance sheet items (Note 36).

Breakdown of the Bank's irrevocable commitments:

	December 31, 2020	December 31, 2019
Framework facilities (overdrafts) per retail customers' current accounts	1,193,993	1,512,472
Framework facilities per retail credit cards	288,520	167,493
Framework facilities – guarantees for short-term loans	229,677	22,593
Framework facilities – guarantees for long-term loans	1,108,424	1,718,413
Letters of intent	114,052	136,953
Total irrevocable commitments for undrawn facilities	**2,934,666**	**3,557,924**

40.2. Litigation

As of December 31, 2020, the Bank was involved as a defendant in 12,555 cases. The aggregate estimated amount claimed in the lawsuits filed against the Bank, including court fees, costs and interest, totaled RSD 1,202,665 thousand (December 31, 2019: RSD 1,350,187 thousand) and does not include cases without claims for monetary payment.

The ultimate outcomes of the lawsuits in progress were estimated by the Bank's legal representatives. As disclosed in Note 36 to the financial statements, as of December 31, 2020, the Bank made provisions for losses contingent on the aforesaid lawsuits in the amount of RSD 645,149 thousand (December 31, 2019: RSD 374,113 thousand). The aforesaid amount includes default interest amounts within the claims, as well as the court expenses, accrued up to December 31, 2020.

The Bank's management estimated that no material losses will arise from the outcome of the pending lawsuits in excess of the amount of provisions made in this respect.

40.3. Taxation Risks

The Republic of Serbia's tax legislation is subject to varying interpretations and changes occur frequently. In the Republic of Serbia, the statute of limitations on the tax liabilities is 5 years. In various circumstances, the tax authorities may have approaches to and interpretation of certain tax matters different from those of the Bank's management and the Bank may be assigned additional tax liability amounts, along with subsequent default interest and penalties.

The Bank's management believes that any varying interpretations will have no material effects on the Bank's financial statements.

41. DERIVATIVES RECORDED WITHIN OFF-BALANCE SHEET ITEMS

	December 31, 2020	December 31, 2019
Derivatives held for trading at contractual price - forwards	6,762,595	7,550,579
Derivatives held for trading at contractual price - swaps	34,708,323	13,122,622
Total derivatives	**41,470,918**	**20,673,201**

As of December 31, 2019, the Bank had contracted currency swap transactions with its parent bank, OTP Bank Srbija a.d., Beograd, Sberbank a.d., Beograd, Direktna banka a.d., Kragujevac and NBS.

The following table provides fair values of derivatives presented as assets or liabilities within the statement of financial position and their notional (contracted) values:

41. DERIVATIVES RECORDED WITHIN OFF-BALANCE SHEET ITEMS (Continued)

	December 31, 2020			December 31, 2019		
		Fair value			Fair value	
	Contracted notional amount	Receivables under derivatives	Liabilities under derivatives	Contracted notional amount	Receivables under derivatives	Liabilities under derivatives
Currency forwards	6,762,595	-	7,366	7,550,579	383	189
Currency swaps	34,708,323	29,921	153,358	13,122,622	9,069	45,301
Total	**41,470,918**	**29,921**	**160,724**	**20,673,201**	**9,452**	**45,490**

Currency swaps entail simultaneous purchase and sale of two currencies in two different time periods. The Bank executes contracts on currency swaps for periods of up to a year and over a year.

Currency forwards entail purchase or sale of one currency for another at a specified future ate, where the forward exchange rate is determined at the forward contract execution date. The Bank executes currency forward contracts for periods of up to a year.

42. OTHER OFF-BALANCE SHEET ASSETS

	December 31, 2020	December 31, 2019
Managed funds	773,507	749,869
Received financial asset collaterals	1,494,796	621,222
Received tangible asset collaterals	84,742,159	62,779,522
Guarantees and other sureties received	13,223,999	10,167,976
Savings bonds	5,051,690	5,066,801
Suspended interest	2,339,885	2,917,828
Accounting write-off under NBS Decision	21,757,817	21,838,470
Other off-balance sheet items	3,816,842	3,794,499
	133,200,695	**107,936,187**

43. STATEMENT OF OTHER COMPREHENSIVE INCOME

During 2020 and 2019 the Bank made no adjusting reclassifications related to the components of other comprehensive income.

44. CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
In RSD:		
Gyro account (Note 18)	2,629,694	5,814,432
Cash on hand (Note 18)	4,235,439	4,209,670
Total RSD	**6,865,133**	**10,024,102**
In foreign currencies:		
Foreign currency accounts (Note 22)	4,049,502	4,033,419
Cash on hand in foreign currencies (Note 18)	4,632,993	5,044,865
Foreign currency cheques	60	60
Other monetary items in foreign currencies (Note 18)	28,725	18,108
Total cash funds in foreign currencies	**8,711,280**	**9,096,452**
Gold and other precious metals (Note 18)	52,314	44,980
Total cash and cash equivalents	**15,628,727**	**19,165,534**

For the purposes of the statement of cash flows, the Bank incudes the above listed items in cash and cash equivalents.

45. RELATED PARTY TRANSACTIONS

Transactions with related parties take the form of founder's contributions, loans and deposits, provision and purchase of services within regular operating transactions with subsidiaries and associates in which the Bank holds significant equity interests or where the Bank has relations with the parent bank or an entity related to the parent bank. Related party transactions are performed at arm's length.

The following table presents the Bank's total receivables and payables to and from related parties as of December 31, 2020:

	OTP Investments	OTP Factoring d.o.o. Novi Sad	OTP Bank Ltd Budapest	DSK Bank Plc	R.E. Four	MOL Serbia	JSC OTP Banka Russia	OTP Financing Malta Company limited	OTP Lizing	OTP Services	OTP banka Srbije	OTP osiguranje	Pevec d.o.o.	OTP Banka Croatia	Imos Šid	KITE d.o.o Novi Sad	Crnogorska komercijalna banka ad. Podgorica
Receivables																	
Receivables under derivatives	-	-	18,688	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	2	1	303,029	-	-	-	14,860	-	22	-	87,102	-	-	-	-	-	-
Loans and receivables due from customers	-	-	-	-	10	172	-	-	-	90	-	-	5	-	2	1,377,893	-
Investments in subsidiaries	171,068	-	-	-	-	-	-	-	270,348	-	-	-	-	-	-	-	-
Intangible assets			10,444														
Other assets	25	1	209	-	122	278	-	-	701	-	**16**	-	-	-	6	-	-
Total receivables	**171,095**	**2**	**332,370**	**-**	**132**	**450**	**14,860**	**-**	**271,071**	**90**	**87,118**	**-**	**5**	**-**	8	**1,377,893**	-
Liabilities																	
Labilities under derivatives	-	-	152,106	-	-	-	-	-	-	-	7,439	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	42,961	33,011	12,091,708	15,415,073	-	-	-	10,582,777	1,120,347	-	34,255	61,707	-	394	-	-	363
Deposits and other liabilities due to customers	-	-	-	-	67,457	423,384	-	-	-	479,055	-	-	33,488	-	6,297	150,059	-
Subordinated liabilities	-	-	-	-	-	-	-	1,177,041	-	-	-	-	-	-	-	-	-
Provisions	-	-	91	-	62	-	-	-	-	-	-	-	-	-	-	1,849	-
Other liabilities			27,214		49,434	234					31	2,062	68			1,210	
Total liabilities	**42,961**	**33,011**	**12,271,119**	**15,415,073**	**116,953**	**423,618**		**11,759,818**	**1,120,347**	**479,055**	**41,725**	63,769	33,556	394	6,297	**153,118**	363
Equity																	
Share capital	-	-	34,171,370	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prior years' losses – FTA IFRS 9																	
Total equity			**34,171,370**														
Total equity and liabilities	**42,961**	**33,011**	**46,442,489**	**15,415,073**	**116,953**	**423,618**		**11,759,818**	**1,120,347**	**479,055**	**41,725**	**63,769**	**33,556**	**394**	**6,297**	**153,118**	**363**
Total net	**128,134**	**(33,009)**	**(46,110,119)**	**(15,415,073)**	**(116,821)**	**(423,168)**	**14,860**	**(11,759,818)**	**(849,276)**	**(478,965)**	**45,393**	**(63,769)**	**(33,551)**	**(394)**	**(6,289)**	**1,224,775**	**(363)**
Guarantees and other sureties issued	-	-	41,153	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commitments per undrawn loans																188,128	
Pledged financial assets	-	-	126,987	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other derivatives at contracted notional amounts	-	-	19,070,109	-	-	-	-	-	-	-	1,349,712	-	-	-	-	-	-
Other off-balance sheet items - treasury transactions (spot, T+1)	-	-	681,170	245,478	-	-	-	-	-	-	2,369,861	-	-	-	-	-	-
Other off-balance sheet items –guarantees and other sureties received	-	-	41,153	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other off-balance sheet items – revocable commitments	-	-	-	-	10,000	-	-	-	-	-	-	-	-	-	-	129,000	-
Liabilities per RSD guarantees and other sureties issued	-	-	-	-	-	559,367	-	-	-	-	-	-	-	-	-	-	-
Liabilities per foreign currency guarantees and other sureties issued	-	-	9,406	-	-	-	-	-	-	-	-	-	-	-	-	-	18,518
Liabilities per financial assets	-	-	126,987	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total off-balance sheet items	**-**	**-**	**20,096,965**	**245,478**	**10,000**	**559,367**	**-**	**-**	**-**	**-**	**3,719,573**	**-**	**-**	**-**	**-**	317,128	**18,518**

45. RELATED PARTY TRANSACTIONS (Continued)

The following table presents the Bank's total receivables and payables to and from related parties as of December 31, 2019:

	OTP Investments	OTP Factoring d.o.o.	OTP Bank Ltd Budapest	DSK Bank Plc	R.E. Four	MOL Serbia	JSC OTP Bank Russia	OTP Financing Malta Company Limited	OTP Lizing	OTP Services	OTP Banka Srbije	OTP osiguranje	Pevec d.o.o.	OTP Banka Croatia	Imos Šid	KITE d.o.o Novi Sad
Receivables																
Receivables under derivatives	-	-	8,859	-	-	-	-		-	-	383	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	1	2	326,021	-	-	-	25,413		291	-	57,641	-	-	-	-	-
Loans and receivables due from customers	-	-	-	-	2,841	240	-		-	89	-	-	4	-	2	1,106,590
Investments in subsidiaries	171,068	-	-	-	-	-	-		270,348	-	-	-	-	-	-	-
Other assets	51	46	15,171,503	-	255	73	-		(1,183,158)	(391,394)	4	-	-	-	4,457	(230,099)
Total receivables	**171,120**	**48**	**15,506,383**	**-**	**3,096**	**313**	**25,413**		**(912,519)**	**(391,305)**	**58,028**	**-**	**4**	**-**	4,459	876,491
Liabilities																
Labilities under derivatives	-	-	42,994	-	- -	-	-		-	-	189	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	48,962	39,140	30,874,333	59,746	- -	-	-	3,527,815	325,750	-	9,246	11	-	875	-	-
Deposits and other liabilities due to customers	-	-	-	-	50,309	580,798	-		-	430,254	-	-	15,172	-	2,779	125,510
Provisions	-	-	40	-	17	-	-	-	-	-	-	-	-	-	-	897
Other liabilities	-	-	6,069	-	60,107	1,658	-		-	-	56	-	68	-	-	1,655
Total liabilities	**48,962**	**39,140**	**30,923,436**	**59,746**	**110,433**	**582,456**	**-**	**3,527,815**	**325,750**	**430,254**	9,491	11	15,240	875	2,779	128,062
Equity											-	-	-	-	-	-
Share capital	-	-	34,171,370	-	- -	-	-		-	-	-	-	-	-	-	-
Prior years' losses – FTA IFRS 9	-	-	-	-	- -	-	-		-	-						
Total equity	**-**	**-**	**34,171,370**	**-**	**- -**	**-**	**-**		**-**	-	-	-	-	-	-	-
Total equity and liabilities	**48,962**	**39,140**	**65,094,806**	**59,746**	**110,433**	**582,456**	**-**	**3,527,815**	**325,750**	**430,254**	**9,491**	**11**	**15,240**	**875**	**2,779**	**128,062**
Total net	**122,158**	**(39,092)**	**(49,588,423)**	**(59,746)**	**(107,337)**	**(582,143)**	**25,413**	**(3,527,815)**	**(1,238,269)**	**(821,559)**	**48,537**	**(11)**	**(15,236)**	**(875)**	**1,680**	**748,429**
Guarantees and other sureties issued	-	-	23,519	-	-	-	-	-	-	-	-	-	-	-	-	-
Other derivatives at contracted notional amounts	-	-	10,888,359	-	-	-	-	-	-	-	304,976	-	-	-	-	-
Other off-balance sheet items - treasury transactions (spot, T+1)	-	-	878,867	-	-	-	-	-	-	-	4,108,887	-	-	-	-	-
Other off-balance sheet items – guarantees and other sureties received	-	-	23,519	-	-	-	-	-	-	-	-	-	-	-	-	-
Other off-balance sheet items – revocable commitments	-	-	-	-	7,128	-	-	-	-	-	-	-	-	-	-	369,000
Liabilities per RSD guarantees and other sureties issued			-	-	-	888,794	-	-	-	-	-	-	-	-	-	-
Liabilities per foreign currency guarantees and other sureties issued	-	-	27,082	-	-	-	-	-	-	-	-	-	-	-	-	-
Total off-balance sheet items	**-**	**-**	**11,841,346**		**7,128**	**888,794**	**-**	**-**	**-**	**-**	**4,413,863**	**-**	**-**	**-**	**-**	**369,000**

45. RELATED PARTY TRANSACTIONS (Continued)

Income and expenses arising from related party transactions for the period from January 1 through December 31, 2020 were as follows:

	OTP Investments	OTP Factoring d.o.o. Novi Sad	OTP Bank Ltd Budapest	DSK Bank Plc	R.E. Four	MOL Serbia	JSC OTP Bank Russia	OTP Financing Malta Company limited	OTP Lizing	OTP Services	OTP banka Srbije	OTP osiguranje	OTP banka Slovenskoa.s	Pevec d.o.o.	OTP Banka Croatia	Imos Šid	KITE d.o.o Novi Sad	CKB ad. Podgorica	OTP Bank Romania
Income																			
Interest income	-	-	9,675	531	53	-	54	-	-	-	1,837	-	-	-	-	-	25,429	-	
Fee and commissions income	20	18	7,944	28	146	29,544	-	-	1,797	1,011	1,965	520	-	110	16	106	3,270	**6**	
Other operating income	254	19	-	-	1,222	-	-	-	129,276	-	-	-	-	-	-	-	-	-	
Gains on the reversal of impairment of financial assets not measured at fair value through profit or loss (FVtPL)	1	23	59	-	704	-	-	-	-	-	-	-	-	-	-	-	6,311	-	
Gains on changes in the fair values of financial instruments	-	-	390,967	-	-	-	-	-	-	-	3,159	-	-	-	-	-	-	-	
Other income	-	-	22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Foreign exchange gains and positive currency clause effects	49	-	551,405	10,189	74	11,047	1,862	5,969	1,806	64	123,985	32	-	-	-	-	5,447	-	**1,380**
Total income	**324**	**60**	**960,072**	**10,748**	**2,199**	**40,591**	**1,916**	**5,969**	**132,879**	**1,075**	**130,946**	552	**-**	**110**	**16**	**106**	**40,457**	**6**	**1,380**
Expenses																			
Interest expenses	(54)	-	(58,325)	(21,485)	(2,696)	(1,923)	-	(26,500)	(114)	(85)	(1,074)	(55)	-	-	-	-	-	-	
Fee and commissions expenses	-	-	(3,757)	(14)	-	-	(5)	-	-	-	(418)	-	-	-	(25)	-	-	-	
Losses on impairment of financial assets not measured at fair value through profit or loss (FVtPL)	-	(23)	(109)	-	(740)	-	-	-	-	-	-	-	-	-	-	-	(14,978)	-	
Other expenses	-	-	(36,844)	-	(6,014)	(7,955)	-	-	-	-	-	(1,500)	(4)	(813)	-	-	-	-	
Losses on changes in the fair values of financial instruments	-	-	(446,910)	-	-	-	-	-	-	-	(15,561)	-	-	-	-	-	-	-	
Foreign exchange losses and negative currency clause effects	(39)	-	(569,027)	(15,185)	(59)	(44)	(5,379)	(5,576)	(245)	(43)	(94,281)	(62)	(0)	-	-	-	(194)	-	(155)
Total expenses	**(93)**	**(23)**	**(1,114,972)**	**(36,684)**	**(9,509)**	**(9,922)**	**(5,384)**	**(32,076)**	**(359)**	**(128)**	**(111,334)**	**(1,617)**	**(4)**	**(813)**	**(25)**	**-**	**(15,172)**	**-**	**(155)**
Total, net	**231**	**37**	**(154,900)**	**(25,936)**	**(7,310)**	**30,669**	**(3,468)**	**(26,107)**	**132,520**	**947**	**19,612**	**(1,065)**	**(4)**	**(703)**	**(9)**	**106**	**25,285**	**6**	**1,225**

45. RELATED PARTY TRANSACTIONS (Continued)

Income and expenses arising from related party transactions for the period from January 1 through December 31, 2019 were as follows:

	OTP Investments	OTP Factoring d.o.o. Novi Sad	OTP Bank Ltd Budapest	DSK Bank Plc	R.E. Four	MOL Serbia	JSC OTP Banka Russia	OTP Financing Malta Company Limited	OTP Lizing	OTP Services	OTP banka Srbije	OTP osiguranje	OTP banka Slovensko a.s	Pevec d.o.o.	OTP Banka Croatia	Imos Šid	KITE d.o.o Novi Sad
Income																	
Interest income	-	-	24,028	-	85	-	34	-	978	466	594	-	-	100	-	-	24,581
Fee and commissions income	20	16	7,106	-	233	26,197	-	-	2,635	781	452	-	-	136	3	64	2,914
Other operating income	255	150	-	-	1,011	-	-	-	4,369	-	-	-	-	-	-	-	-
Gains on the reversal of impairment of financial assets not measured at fair value through profit or loss (FVtPL)	-	-	128	-	73	1	-	-	3,151	1,611	-	-	-	45	-	-	2,658
Gains on changes in the fair values of financial instruments	-	-	427,437	-	-	-	-	-	-	-	20,241	-	-	-	-	-	-
Other income		-			42			-	26		-	-	-	-	-	-	-
Foreign exchange gains and positive currency clause effects	213	-0	1,171,800	10,218	554	11,910	972	-	8,229	2,602	39,349	59	-	22	-	-	4,796
Total income	**488**	**166**	**1,630,499**	**10,218**	**2,000**	**38,108**	**1,005**	**-**	**19,389**	**5,460**	**60,636**	**59**	**-**	**303**	**3**	**64**	**34,949**
Expenses																	
Interest expenses	(15)	-	(89,568)	-	(3,173)	(5,972)	-	(31)	(231)	(891)	(553)	-	-	-	-	-	-
Fee and commissions expenses	-	-	(3,837)	-	-	-	(10)	-	-	-	(184)	-	(12)	-	(2)	-	-
Losses on impairment of financial assets not measured at fair value through profit or loss (FVtPL)	-	-	(134)	-	(67)	-	-	-	(3,024)	(1,544)	-	-	-	-	-	-	(4,958)
Other expenses	-	-	(102,346)	-	(6,773)	(15,290)	-	-	(451)	-	(4)	-	-	(815)	-	-	-
Losses on changes in the fair values of financial instruments	-	-	(237,935)	-	-	-	-	-	-	-	(17,284)	- -	-	-	-	-	-
Foreign exchange losses and negative currency clause effects	(81)	-	(1,065,581)	(4,324)	(197)	(819)	(776)	-	(1,465)	(247)	(23,873)	(59)	-	(29)	-	-	(454)
Total expenses	**(96)**	**-**	**(1,499,400)**	**(4,324)**	**(10,210)**	**(22,082)**	**(785)**	**(31)**	**(5,171)**	**(2,682)**	**(41,898)**	**(59)**	**(12)**	**(844)**	**(2)**	**-**	**(5,412)**
Total, net	**392**	**166**	**131,099**	**5,894**	**(8,210)**	**16,026**	**220**	**(31)**	**14,218**	**2,778**	**18,738**	**-**	**(12)**	**(541)**	**1**	**64**	**29,537**

In 2020 and 2019, the members of the Executive Board and Board of Directors were remunerated as follows;

	2020	2019
Gross salaries of Executive Board members	92,315	113,646
Net salaries of Executive Board members	78,852	98,979
Use of company automobiles by the Executive Board members	1,415	2,368
Mobile phone costs of Executive Board members	281	371
Gross remuneration to the Board of Directors	11,797	13,846
Net remuneration to the Board of Directors	7,337	9,793

46. RISK MANAGEMENT

The Bank's Mission

The Bank's risk management activities at all its organizational levels are guided by the mission to achieve value for the Bank's shareholders through optimization of the return relative to the risks, taking into account the interests of the clients and employees, in the manner that is in conformity with the best banking practices and the regulatory requirements.

The Bank has established a comprehensive risk management system with the following objectives:

- setting up of a set of the basic risk management principles and standards throughout the Bank in order to maximize the use of its revenue generating potential and opportunities for creation of value for the shareholders;
- support to the Bank's business strategy by ensuring that the business goals are achieves under controlled risks in order to maintain stability of the revenues by protection against unexpected losses;
- improved use and allocation of the capital and increased return on invested capital aligned with risks by inclusion of the risks in the performance measurement;
- support to the process of decision-making by providing the necessary risk-related estimates;
- harmonization with the best practices in the industry and the local regulatory, quantitative and qualitative requirements; and
- ensuring that the risk management pays out by reducing overlapping and avoiding inadequate, excessive or obsolete policies, processes, methodologies, models, controls and systems.

Governing and Organizational Framework

The Bank's Board of Directors is responsible for establishment of a uniform risk management system and supervision of that system. In keeping with the aforesaid, the Board of Directors adopts strategies and policies for risk identification, measurements, monitoring and control, defines the Bank's internal organization that will ensure segregation of duties, competences and responsibilities of the employees in such a manner that conflicts of interest are prevented, and takes other actions with regard to the definitions of objectives and principles of risk management.

The Bank's Audit Committee contributes to the efficiency of the supervision of the risk management system. This committee, appointed by the Board of Directors, analyzes and oversees the application and adequate implementation of the adopted risk management strategies and policies on a monthly basis, as well as the functioning of the internal control system and analyzes and adopts draft strategies and policies that are submitted to the Board of Directors for adoption.

The Bank's Executive Board is responsible for identification of the risks the Bank is exposed to and for control of those risks in accordance with the framework defined by the Board of Directors. The Executive Board adopts procedures and other internal bylaws, which in a more detailed manner govern the processes and procedures of risk identification, measurement, monitoring and control.

The Internal Audit Function was set up for independent monitoring and control of the effectiveness of the internal control system and compliance of the Bank's operations, including implementation of the risk management framework. The Internal Audit is responsible to the Board of Directors.

Risk management is aligned with the organizational structure of the Bank within the Risk Management Division and the Finance Division as follows:

- Risk Management Division (Reporting, Provisioning and Risk Regulation Directorate, Market and Operational Risk Directorate, Collection Directorate, Retail Credit Risk Directorate and Corporate Credit Risk Directorate);
- Finance Division (ALM Directorate and Middle Office).

46.1. Liquidity Risk

Liquidity risk is associated with the adverse effects of the Bank's inability to settle its liabilities when due on the Bank's financial result and capital.

46. RISK MANAGEMENT (Continued)

46.1. Liquidity Risk (Continued)

Liquidity risk is vital to the Bank's prudent and safe business operation. Liquidity risk management is an integral part of the Bank's Policy for Asset and Liability Management. The basic goal of liquidity management is to minimize the liquidity risk through planning inflows and outflows of monetary assets, monitoring liquidity and taking adequate measures for preventing and eliminating the causes of non-liquidity, i.e. avoiding possible adverse effects of the Bank's inability to settle its liabilities as they fall due on the Bank's financial result and capital.

The Bank continuously monitors its exposure to liquidity risk and its compliance with the set limits. During 2020, there were no changes in the liquidity risk management framework as defined in the Bank's Risk Management Strategy. The Bank's Policy for Asset and Liability Management, roles and responsibilities in the process of liquidity management defined for obtaining diversified sources of financing, adequate management of the assets and liabilities and continuous monitoring of the future cash flows and liquidity on a daily basis have all remained unchanged.

During 2020, the Bank's liquidity was within the limits prescribed by NBS (liquidity ratio, quick ratio and liquidity coverage ratio).

	Liquidity coverage ratio 2020	Quick liquidity ratio 2020	Liquidity ratio 2020	Liquidity coverage ratio 2019	Quick liquidity ratio 2019	Liquidity ratio 2019
As at December 31	130.62%	1.37	1.51	136.01%	1.37	1.52
Year's average	132.48%	1.49	1.66	133.70%	1.53	1.77
Maximum	145.57%	1.84	2.06	144.84%	2.26	2.50
Minimum	120.43%	1.20	1.31	110.32%	1.11	1.39

The Bank maintains the portfolio comprised of highly liquid securities (issued by the Republic of Serbia, denominated in RSD and EUR) and diversified assets that are easily convertible into cash in case of unforeseen and adverse fluctuations in the Bank's cash flows. The Bank also maintains the required level of RSD and foreign currency reserve as required by the National Bank of Serbia.

The Bank may call on liquid assets of its Parent Bank and, therefore, in case of deteriorating liquidity due to the financial market crisis the Bank may bridge its liquidity gap by borrowing from the Parent Bank.

The Bank's adopted policies and procedures ensure adequate asset management and adequate liquidity level planning. In addition to the liquidity indicators prescribed by NBS, the Bank uses the following methods for measuring liquidity risk exposure:

- Primary and operating liquidity level (liquid assets maturing up to a month and up to 3 months are compared to target values covering liabilities maturing in the period under review, corporate segment requirements and deposit shock, i.e., 99 percentile change in 1-month and 3-month deposits);
- Regular stress testing; and
- Testing Contingency Financing Plan in Liquidity Crises.

For the purposes of liquidity monitoring and measurement, the Bank measures and monitors net cash flows, by keeping track of assets and liabilities according to their outstanding maturities, by measuring and comparing cash inflows and outflows, i.e. through the GAP analysis.

46. RISK MANAGEMENT (Continued)

46.1. Liquidity Risk (Continued)

Total liquidity gap between the outstanding contractual maturities of financial assets and liabilities as of December 31, 2020 was as follows:

	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Cash and balances held with the central bank	33,251,589	-	-	-	-	-	-	33,251,589
Pledged financial assets	-	740	-	1,176,562	-	-	317,494	1,494,796
Receivables under financial derivatives	6,601	14,244	4,012	5,064	-	-	-	29,921
Securities	1,402,880	2,870,446	6,627,582	6,286,486	-	-	41,128	17,228,522
Loans and receivables due from banks and other financial institutions	4,136,954	765,224	28,997	1,642	-	17,415	5,636	4,955,868
Loans and receivables due from customers	3,836,916	7,132,752	36,811,846	85,410,965	31,993,026	715,030	4,092,620	169,993,155
Other assets	459,838	355	-	32,000	-	352,555	27,065	871,813
Total assets	**43,094,778**	**10,783,761**	**43,472,437**	**92,912,719**	**31,993,026**	**1,085,000**	**4,483,943**	**227,825,664**
Liabilities under financial derivatives	111,752	5,951	39,654	3,367	-	-	-	160,724
Deposits and other liabilities due to banks, other financial institutions and the central bank	9,422,220	10,059,142	19,174,463	10,887,000	-	4,465	162,828	49,710,118
Deposits and other liabilities due to customers	132,399,493	8,725,645	8,064,591	2,350,663	372,900	249,314	949,238	153,111,844
Subordinated liabilities	-	1,239	-	-	1,175,802	-	-	1,177,041
Other liabilities	458,576	61,301	162,816	484,954	225,144	10,449	248,458	1,651,698
Total liabilities	**142,392,041**	**18,853,278**	**27,441,524**	**13,725,984**	**1,773,846**	**264,228**	**1,360,524**	**205,811,425**
Liquidity gap as of December 31, 2020	(99,297,263)	(8,069,517)	16,030,913	79,186,735	30,219,180	820,772	3,123,419	22,014,239
Liquidity gap as of December 31, 2019	(73,786,462)	(5,100,493)	6,763,834	67,338,212	27,517,198	1,019,015	(978,729)	22,772,575

The structure of asset and liability maturities as at December 31, 2020 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the bucket of up to a month, primarily due to the maturity structure of deposits, i.e. significant share of demand and short-term deposits in the total deposits due to banks and customers. However, based on the historical data and experience, a significant portion of demand deposits may be regarded as a stable long-term source of financing given the transactions and withdrawals realized. In addition, a significant portion of term deposits are commonly renewed, i.e., placed for another term immediately upon maturity. At the same time, the Bank is in possession of highly liquid instruments - securities that can be pledged with the National Bank of Serbia at any time, as well as MM line of credit limit approved by its Parent Bank, available at any time.

46. RISK MANAGEMENT (Continued)

46.1. Liquidity Risk (Continued)

Liquidity Stress Test

In addition to the liquidity management in the normal course of business, the Bank does periodical stress testing as well in order to identify and measure its liquidity risk exposure in extraordinary circumstances and analyze its potential effects on the cash flows.

Stress testing compares the available liquid assets to the assumed outflow of customer deposit funds (deposit shock), assumed outflow of interbank deposits, guarantees and irrevocable credit lines. Available liquid assets include surplus/shortage assets in excess of the obligatory reserves, RSD cash balances and foreign currency account balances in excess of the amount required for the Bank's unhindered operation, short-term deposits placed with NBS and other banks, and liquidity reserves invested into the government securities. In addition, the Bank considers possibilities for obtaining funds in the interbank market and the loan funds it may draw from the Parent Bank. The performed stress testing determined that the Bank possessed sufficient liquid reserves to absorb the assumed outflows totaling RSD 20 billion at December 31, 2020, where any massive outflows could be covered form the funds approved to the Bank by its Parent Bank and borrowed in the interbank market.

If there were to be certain disorders in the ensuing period, i.e., if early warning indicators were to be exceeded, the Bank would respond in accordance with the Business Recovery/Contingency Financing Plan, where both short-term and long-term measures for liquidity improvement are clearly defined.

46.2. Interest Rate Risk

Interest rate risk is a risk of adverse effects of changes in market interest rates on the Bank's financial performance and capital. Interest rate risk exposure depends on the Bank's interest-bearing assets relative to its interest-bearing liabilities. During 2019, there were no changes in the interest rate risk objectives and aptitude as defined by the Bank's Risk Management Strategy, Policy for Asset and Liability Management and Policy for Banking Book Interest Rate Risk Management. The acceptable level of the Bank's interest rate risk exposure is defined by the limits set out by the Bank based on its risk assumption willingness and ability.

The basic principle of managing interest rate risk arising from the banking book is the principle of matching financial assets and liabilities per interest rate type (fixed or variable) and per maturity, i.e. per date of interest rate adjustment. The Bank informs the ALCO on the proportion of interest-sensitive assets and liabilities and on the compliance of the interest rate risk with the internally prescribed limits on a monthly basis.

For the purpose of measuring interest rate risk exposure, the Bank uses the GAP analysis (mismatch analysis). The size of the mismatch (GAP) for a certain time interval (bucket) is indicative of the Bank's exposure to the repricing risk.

46. RISK MANAGEMENT (Continued)

46.2. Interest Rate Risk (Continued)

The following table shows the Bank's exposure to interest rate risk as of December 31, 2020:

	0 - 30 days	30-90 days	90-180 days	180-360 days	1-2 years	Over 2 years	Non-interest bearing	Total
Cash and balances held with the central bank	14,218,420	-	-	-	-	-	19,033,169	**33,251,589**
Pledged financial assets	190,508	1,177,302	-	-	-	-	126,987	**1,494,796**
Receivables under financial derivatives	6,601	14,244	-	4,012	5,064	-	-	**29,921**
Securities	1,402,880	2,870,446	4,563,114	2,064,469	1,420,324	4,866,162	41,128	**17,228,522**
Loans and receivables due from banks and other financial institutions	1,988,465	851,369	-	-	-	-	2,116,033	**4,955,868**
Loans and receivables due from customers	63,144,466	84,206,229	13,947,129	1,924,278	1,045,569	3,151,668	2,573,816	**169,993,155**
Other assets	-	-	-	-	-	-	871,813	**871,813**
TOTAL ASSETS	**80,951,339**	**89,119,590**	**18,510,243**	**3,992,759**	**2,470,956**	**8,017,830**	**24,762,946**	**227,825,664**
Liabilities under financial derivatives	111,752	5,951	35,655	3,999	3,367	0	0	**160,724**
Deposits and other liabilities due to banks, other financial institutions and the central bank	8,465,283	20,630,825	10,426,897	8,375,949	110,000	152,001	1,549,163	**49,710,118**
Deposits and other liabilities due to customers	56,948,724	7,602,962	2,627,087	4,664,186	1,039,695	390,626	79,838,564	**153,111,844**
Subordinated liabilities	-	1,175,802	-	-	-	-	1,239	**1,177,041**
Other liabilities	-	-	-	-	-	-	1,651,698	**1,651,698**
TOTAL LIABILITIES	**65,525,759**	**29,415,540**	**13,089,639**	**13,044,134**	**1,153,062**	**542,627**	**83,040,664**	**205,811,425**
GAP at December 31, 2020	15,425,581	59,704,050	5,420,604	(9,051,374)	1,317,894	7,475,203	(58,277,718)	22,014,239
CUMULATIVE GAP at December 31, 2020	15,425,581	75,129,631	80,550,234	71,498,860	72,816,754	80,291,957	-	
GAP at December 31, 2019	(7,866,724)	65,419,525	2,572,130	(11,196,039)	3,275,262	10,442,774	(39,874,353)	22,772,575
CUMULATIVE GAP at December 31, 2019	(7,866,724)	57,552,801	60,124,931	48,928,892	52,204,154	62,646,928	-	

As of December 31, 2020, the Bank realized cumulative positive GAP of RSD 79,980,422 thousand.

46. RISK MANAGEMENT (Continued)

46.2. Interest Rate Risk (Continued)

Based on the GAP report on the interest-sensitive assets and liabilities, ALM Unit ,manages the banking book interest risk.

The acceptable level of interest rate risk is defined by the limit of the maximum possible sensitivity of the Bank's net assets to the fluctuations in the market interest rates. The Bank examines several scenarios involving the parallel shifting of the yield curve as well as scenarios of the changes to the yield curve slopes (yield curve risk). Sensitivity to changes in interest rate risk is performed for each significant currency.

Scenario Analysis

In addition to the set limits and GAP analyses, interest rate risk is also monitored by way of scenario analysis, i.e., by observing the impact of interest rate fluctuations on the Bank's economic value of equity. The scenario analysis includes interest bearing items from the banking book. The following table illustrates changes in the economic value of equity through the combination of 6 different scenarios for RSD and 8 scenarios for foreign currency interest rate fluctuations:

FCY Scenario analysis	Interest rate change (in bp)	Net weighted position in EUR	Net weighted position in CHF	Net weighted position in USD	Net weighted position - other	Net weighted position in the banking book FCY
Scenario 1	200	345,228	4,408	6,357	(233)	355,759
Scenario 2	-200	(345,228)	(4,408)	(6,357)	233	(355,759)
Scenario 3	100	172,614	2,204	3,178	(117)	177,880
Scenario 4	-100	(172,614)	(2,204)	(3,178)	117	(177,880)
Scenario 5	200; 150; 100; 0; 100; 200	232,438	1,800	2,527	(233)	236,531
Scenario 6	-100; -75; -50; 0; -50; -100	(116,219)	(900)	(1,263)	117	(118,266)
Scenario 7	0; 100; 150; 200	247,667	5,664	7,766	-	261,097
Scenario 8	0; -100; -150; -200	(247,667)	(5,664)	(7,766)	-	(261,097)
MIN		**(345,228)**	**(5,664)**	**(7,766)**	**(233)**	**(355,759)**

RSD Scenario analysis	Interest rate change (in bp)	Net weighted position in RSD
Scenario 1	413	1,008,747
Scenario 2	-109	(438,062)
Scenario 3	400;300;200;0;200;300	975,978
Scenario 4	-400;-300;-200;0;-200;-300	(975,978)
Scenario 5	0;200;300;400	1,065,159
Scenario 6	0;-200;-300;-400	(1,065,159)
MIN		**(1,065,159)**
EVE change (the worst scenario)		**(1,420,918)**

Economic value of equity is defined as the net present value of all expected cash flows of the Bank. The process of the scenario analysis is comprised of two steps:

a) Defining scenario of the change in interest rate, and
b) Valuation of interest bearing items under selected scenarios.

Change to the economic value of equity is calculated separately for each major currency, i.e., at least for RSD, EUR, USD and CHF:

a) Parallel shift of each yield curve by +/- 200 bp,100 bp (except for RSD currency);
b) Yield curve with amplitude – changes in the slope of the yield curve are assumed for the following periods: up to 3 months; from 3 months to year; form 1 year to 3 years; from 3 to 4 years; from 4 to 10 years; over 10 years:
   - case 1 for FX: +200 bp; +150 bp; +100 bp; 0; +100 bp; +200 bp,
   - case 2 for FX: -100 bp; -75 bp; -50 bp; 0; -50 bp; -100 bp,
   - for RSD: ±400 bp; ±300 bp; ±200 bp; 0; ±200 bp; ±300 bp;

46. RISK MANAGEMENT (Continued)

46.2. Interest Rate Risk (Continued)

Scenario Analysis (Continued)

c) Steep yield curve – changes in the slope of the yield curve are assumed for the following periods: up to 3 months; from 3 months to 3 years; from 3 to 10 years; over 10 years:
   - for FX: 0; ±100 bp; ±150 bp; ±200 bp
   - for RSD: 0; ±200 bp; ±300 bp; ±400 bp

d) 1% and 99% percentile of the changes to interest rates under review using changes within the time frame of one year and minimum 5 years of observations (only for RSD).

46.3. Market Risks

46.3.1 Foreign Exchange Risk

Foreign exchange (foreign currency) risk is a risk of adverse effects on the Bank's financial result and its capital caused by changes in the foreign currency to RSD exchange rates.

The exposure to foreign currency risk based on a certain currency represents potential changes in the value of receivables and payables of the Bank denominated in the given currency which may be ascribed to the movements in the exchange rate. Foreign currency risk arising from a certain currency is measured as the difference between the total amount of receivables and total amount of payables expressed in that currency (foreign currency open position). During 2020, the Bank's management and control of the foreign exchange risk exposure were in compliance with the defined tolerance and the Bank's foreign exchange risk appetite defined by the Bank's Risk Management Strategy and the Policy for Market Risk Management. There were no changes in comparison to the previous year.

The foreign exchange risk ratio is the ratio of the total foreign currency net open position and the Bank's capital. The Bank is obligated to ensure that its total foreign currency net open position does not exceed 20% of its regulatory capital.

						RSD '000
Item	**EUR**	**CHF**	**USD**	**Other**	**RSD**	**Total**
Cash and balances held with the central bank	12,654,797	1,423,262	310,816	384,739	18,477,975	33,251,589
Pledged financial assets	126,986	-	190,508	-	1,177,302	1,494,796
Receivables under financial derivatives	-	-	-	-	29,921	29,921
Securities	2,352,525	-	-	-	14,875,997	17,228,522
Loans and receivables due from banks and other financial institutions	4,244,385	18,570	147,879	408,885	136,149	4,955,868
Loans and receivables due from customers	95,196,572	77,056	140,367	-	74,579,160	169,993,155
Other assets	36,437	(1,839)	(14)	(39)	837,268	871,813
TOTAL ASSETS (I)	**114,611,702**	**1,517,049**	**789,556**	**793,585**	**110,113,772**	**227,825,664**
Liabilities under financial derivatives	-	-	-	-	160,724	160,724
Deposits and other liabilities due to banks, other financial institutions and the central bank	37,775,804	437,426	3,043,163	13,553	8,440,172	49,710,118
Deposits and other liabilities due to customers	73,636,240	3,664,482	2,715,916	643,059	72,452,147	153,111,844
Subordinated liabilities	1,177,041	-	-	-	-	1,177,041
Other liabilities	923,237	1	3,443	1,401	723,616	1,651,698
TOTAL LIABILITIES (II)	**113,512,322**	**4,101,909**	**5,762,522**	**658,013**	**81,776,659**	**205,811,425**
ON-BALANCE GAP (I) - (II)	**1,099,380**	**(2,584,860)**	**(4,972,966)**	**135,572**	**28,337,113**	**22,014,239**
OFFSET OFF-BALANCE SHEET ITEMS	**(309,217)**	**2,573,518**	**4,984,868**	**(131,443)**	**(7,260,826)**	**(143,100)**
OPEN LONG POSITION as of December 31, 2020	790,163	-	11,902	6,661	21,076,287	21,885,013
OPEN SHORT POSITION as of December 31, 2020	-	11,342	-	(2,527)	-	8,815
NET OPEN POSITION as of December 31, 2020	**790,163**	**11,342**	**11,902**	**4,134**	**21,076,287**	**21,893,828**

46. RISK MANAGEMENT (Continued)

46.3. Market Risks (Continued)

46.3.1 Foreign Exchange Risk (Continued)

The process of foreign currency risk management in the Bank is in compliance with the limits set by the National Bank of Serbia, as well as with the Bank's internally prescribed limits, which are below the regulatory limits. The limits of foreign currency risk are set so that the Bank protects itself against significant losses contingent on the movements in foreign currency to RSD exchange rates.

The main indicator of the Bank's foreign exchange risk exposure is the foreign exchange risk ratio, calculated as the total foreign currency net open position (including the absolute amount of the net open position in gold) relative to the Bank's regulatory capital. The maximum foreign exchange risk ratio (20%) is defined by NBS Decision of Capital Adequacy while the Bank's internally defined FX risk ration is below the regulatory limit.

As of December 31, 2020, the Bank's foreign currency risk ratio equaled 2.35%.

Sensitivity Analysis

The following table provides details of the assessed effects of the middle exchange rate rise of 3%, 5% and 10% on the amount of open positions for each respective foreign currency and net open position and subsequently the isolated effect of the newly obtained net open positions on the financial result, capital and foreign exchange risk ratio of the Bank.

									RSD '000
	December 31, 2020			**Stress +3%**		**Stress +5%**		**Stress +10%**	
	Middle exchange rate	**Open position (FX)**	**Open position (RSD)**	**Open position**	**Net impact on the result**	**Open position**	**Net impact on the result**	**Open position**	**Net impact on the result**
CHF	108.44	(105)	(11,342)	(11,683)	(340)	(11,909)	(567)	(12,477)	(1,134)
EUR	117.58	6,720	790,163	813,867	23,705	829,671	39,508	869,179	79,016
USD	95.66	124	11,902	12,259	357	12,497	595	13,092	1,190
GBP	130.40	(7)	(894)	(921)	(27)	(939)	(45)	(983)	(89)
AUD	73.68	3	194	200	6	204	10	213	19
CAD	75.08	19	1,442	1,485	43	1,514	72	1,586	144
SEK	11.65	(18)	(214)	(220)	(6)	(225)	(11)	(235)	(21)
NOK	11.19	175	1,955	2,014	59	2,053	98	2,151	196
RUB	1.28	1,858	2,369	2,440	71	2,487	118	2,606	237
DKK	15.80	(13)	(202)	(208)	(6)	(212)	(10)	(222)	(20)
JPY	0.93	756	701	722	21	736	35	771	70
HUF	0.32	(3,782)	(1,217)	(1,254)	(37)	(1,278)	(61)	(1,339)	(122)
Net open position			**808,725**	**832,987**	**-**	**849,162**	**-**	**889,598**	-
Gold			45,566	46,933	-	47,844	-	47,844	-
Net impact on the financial result						**23,846**		**39,743**	
Capital			**31,117,621**		**31,141,467**		**31,157,364**		**31,197,107**
FX risk ratio			2.75%		2.83%		2.88%		3.00%
Capital requirement for FX risk ratio			68,343	70,394		71,760		74,995	

Based on the analysis presented in the table above, even in the event of major RSD depreciation against other currencies, the foreign exchange risk ratio would still remain far below the prescribed limit of 20%.

46. RISK MANAGEMENT (Continued)

46.3. Market Risks (Continued)

46.3.2 Equity Price Risk

Equity price risks entail risks of adverse effects on the Bank's financial performance and/or capital due to changes in the prices of debt or equity securities.

The capital requirement for equity price risk equals the sum of the capital requirements for general and specific price risks in respect of equity securities. It is calculated for all trading book activities. In 2020, the Bank had and acquired trading book items. Therefore, it was exposed to the price risk per debt securities. The Bank's trading book portfolio included the Republic of Serbia bonds and derivatives. Accordingly, the Bank calculated the general and specific price risk per debt securities in accordance with the NBS Decision on Capital Adequacy of Banks.

46.4. Credit Risk

Credit risk represents a possibility that the counterparty (borrower) may become unable to settle the liabilities to the Bank, partially or in full within according to the contractually agreed schedule. The Bank's business policies require and provide for the maximum protection of the Bank in respect of its credit risk exposure. The Bank's credit risk policy defines in detail the credit risk management process, which involves the organization of the credit risk management process, credit risk identification, measurement, alleviation and monitoring. This policy also deals with the concentration risk management and the system of internal controls of the credit risk management process as well as definition of credit risk limits used for monitoring credit risk exposure. The Bank's credit risk management policy is adopted on an annual basis and represents a framework for credit risk management as part of the uniform risk management system.

The Bank manages credit risk at the level of individual loans and at the level of the entire loan portfolio. In order to manage credit risk, the Bank had defined the crediting process that involves exposure approval and credit risk management as two separate processes.

The exposure approval process comprises the following steps: exposure initiation, credit exposure, customer segmentation, customer assessment, collateral appraisal, exposure approval and loan disbursement.

The Bank assesses credit risk based on the quantitative and qualitative criteria taking into account characteristics of a specific borrower and loan, which enable clear loan rating and classification into appropriate risk categories according to their collectability. In order to identify the credit risk level, in order to alleviate the credit risk identified and improve the overall credit risk management, the Bank has developed it internal customer rating system, applied to all clients, through adoption of the Rules of Client Rating. Credit rating assists in the decision making process. Different assessment models are used for different customer types.

The purpose of customer assessment is to enable structural estimates of the customer creditworthiness and solvency. The client assessment provides support to the loan approval procedure and assistance in preparation of analyses and decision making.

The Rules on Collateral Assessment defines the acceptable collateral types, the manner of collateral appraisal and conditions for acceptance and realization of collaterals. All collaterals have accepted values which may depart from their market values depending on the level of risks related to the specific collateral.

The loan approval process id described in detail in the Bank's rulebooks on loan approval to corporate, SME and retail customers. It is a process shared by two Bank's divisions – Business Division and Risk Management Division in accordance with the four-eye control principle. Exposure analyses for Business Division's clients are performed by the Risk Management Division as it is responsible for calculation of credit limits per client, independent risk assessment and making decisions on risk acceptance through loan approval. Exposure approval limits are specified by the Rulebook on Decision-Making Levels. This Rulebook also defines competences and amount limits up to which certain Bank's departments or authorized persons may decide on the loans, amendments to the agreed loan terms, departures from the standard terms of business, collection, sale, write-off of receivables, investments of the Bank's assets and borrowings and other matters that need to be decided on during the regular course of banking business.

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

The credit risk management process involves four phases: credit risk identification, measurement, alleviation and monitoring. In order to set up an effective and efficient credit risk management process, the Bank has defined the key responsibilities in the process.

The Board of Directors has the ultimate authority and responsibility for the risk management function. It approves of policies and principles related to the risk management.

After loan disbursement, the monitoring process commences. Monitoring involves a series of activities through which the Bank constantly oversees the risks assumed, economic activities of the borrower, the borrower's assets, financial situation, solvency, readiness of the borrower to fulfil its contractual obligations, changes in the borrower's legal status, the condition and value of collateral obtained, etc.

Ongoing loan portfolio monitoring activities allow the Bank to identify any change that could affect collection of its receivables and to intervene in order to protect its interests.

Monitoring is primarily performed in accordance with the monitoring tasks defined for each borrower/loan. The early warning system is an integral part of the monitoring process and early warning signals are identified through realization of the monitoring tasks.

Implementation of the monitoring activities is supervised by the Placement Monitoring Unit within the Corporate Credit Risk Directorate, which is part of the Risk Management Division. Based on and using the results of the monitoring tasks realized, other sources of information and tools developed, this Unit analyzes borrower/loan risks. The monitoring system also involves customer analyses performed by the Monitoring Committee, which analyzes significant exposures within the Bank's active loan portfolio on a monthly basis.

The Bank has established loan monitoring based on the updated information on the financial situation and creditworthiness of debtors and market values of collaterals obtained, which allow the Bank to undertake timely action to alleviate credit risk in instances of deteriorated financial situation and/or creditworthiness of the debtor or credit protection provider. In addition to the debtor-level monitoring, the Bank's Risk Management Division/Reporting, Provisioning and Risk Regulation Directorate perform portfolio-level monitoring on monthly and quarterly bases and reports to the Bank’s Executives and Heads of the Risk Management Division .

Impairment Allowance and Provisioning Methodology

1. Staging

In accordance with the requirements of IFRS 9 “Financial Instruments”, Vojvođanska Banka a.d., Novi Sad allocates financial assets measured at amortized cost (AC) and financial assets measured at fair value through other comprehensive income (FVtOCI) in the following three stages:

- Stage 1 – non-risk assets without a significant increase in credit risk since initial recognition;
- Stage 2 - non-risk assets with a significant increase in credit risk since initial recognition, but not credit-impaired; and
- Stage 3 – risk, credit-impaired financial assets.

In accordance with the Bank’s Policy on Assessing Impairment of the Balance Sheet Assets and Provisions for Probable Losses per Off-Balance Sheet Items under IFRS 9, financial assets are loans, and receivables, exposures to governments and other counterparts, and all corporate debt securities held to maturity and presented as loans. In the following sections of this Note to the financial statements, information on the exposures and impairment allowances is presented only for the exposures considered to be financial assets. Other receivables are impaired under the simplified approach, as per the ruled of providing in full for receivables that are over 90 days past due. Other receivables are not the subject of this note.

Non-risk or low-risk (Stage 1) assets include all the financial assets where events and conditions specified for Stage 2 and Stage 3 do not exist at the reporting date.

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

1. Staging (Continued)

A financial asset exhibits a significant increase in the credit risk (Stage 2) if any of the following triggers exist in respect thereof at the reporting date, without meeting the criteria for allocation to Stage 3 – non-performing loans (NPL):

a) a delay in payment of liabilities exceeds 30 days (days past due for the purposes of IFRS 9 calculation aligned with the NBS requirements – Instruction for Determining the Default Status);
b) the asset is classified as performing forborne;
c) based on a discretionary decision, the loan currency has undergone a substantial "shock" from the loan disbursement and there is no hedge against the exchange rate fluctuations;
d) the customer/transaction behavioral rating exceeds a pre-defined value or falls into a certain determined range, or has deteriorated to pre-defined degree compared to the historical value, or, unless the behavioral rating system is implemented, there is a delay in repayment of a receivable that has been repaid for at least 6 months at the reporting date, which exceeds 10 days as of at least one of the last 6 accounting reference dates;
e) in case of a retail mortgage loan, the loan-to-value (LTV) ratio exceeds a pre-defined rate (currently: 125%);
f) default on another loan of a retail customer, unless there is a cross-default clause;
g) watch-list 2: a corporate and SME segment exposure (defined as above materiality level) classified as an exposure exhibiting a significantly increased credit risk based on the early warning system (EWS) signals or subjective judgement;
h) in the event there is a significant change in the macroeconomic environment resulting in a significant credit loss increase over the expected life of a financial instrument, the Bank may transfer such an asset to Stage 2. An example for the foregoing is increase in exposures within Stage 2 resulting from the effects of increased loss estimates due to the impact of the Covid-19 pandemic.

A financial asset is non-performing (classified into Stage 3) when the default status occurs (the default status definition is aligned with the Group and NBS rules) as of the reporting date.

When an impairment amount is calculated per exposures allocated to Stages, the following process is to be performed:

- Stage 1 (non-risk assets): recognition of impairment equal to the amount of the 12-month expected credit loss (ECL);
- Stage 2 (a significant increase in credit risk): recognition of impairment equal to the amount of the lifetime expected credit loss (ECL); and
- Stage 3 (risk assets): recognition of impairment equal to the amount of the lifetime expected credit loss (ECL).

For lifetime ECL/impairment, the Bank assesses the risk of default on a particular financial asset during the expected life of the exposure. 12-month ECL represent a portion of the lifetime ECL and are in fact losses that will arise if the asset (loan) defaults (if the default status occurs) within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The Bank estimates expected credit losses on a financial asset in the manner that is to reflect:

- an unbiased neutral and probability-weighted estimate of a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information about the past events, current conditions and forecast future economic conditions, which is available without undue cost or effort as of the reporting date.

Definition of ECL on the Individual and Collective Bases of Assessment

The following exposures are assessed on the collective (portfolio) basis:

- retail exposures, irrespective of the amount;
- all other exposures below the set materiality threshold (RSD 14 million at the borrower's gross exposure level);
- large non-retail exposures (above the set materiality level of RSD 10 million at the borrower's gross exposure level) that are not allocated to Stage 3; and
- purchased or generated impaired (POCI) financial assets meeting the above listed criteria.

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

Definition of ECL on the Individual and Collective Bases of Assessment (Continued)

Exposures above the set materiality level (apart from the retail segment exposures) are subject to the individual (standalone) assessment if:

- they are allocated to Stage 3;
- they are transferred to the remit of the Directorate for Collection of NPLs; and
- if they are purchased or generated impaired financial assets meeting the above listed criteria.

The impairment calculation must be prepared and approved by the Reporting, Provisioning and Risk Regulation Directorate within the Risk Management Division. The calculation, all the relevant factors (amortized cost, original and current effective interest rates, contractual and expected cash flows, from the borrower's operating activities and/or from collateral foreclosure, for the individual periods over the life of the exposure and other relevant information) and the criteria these factors must meet (including the factors underlying allocation to Stage 3) must be individually documented, i.e., documented per each receivable.

The impairment allowance of a receivable is equal to the difference between the value of the receivable (its gross carrying value) at the assessment date and the present value of the expected cash flows discounted up to the assessment date using the exposure's original effective interest rate (as calculated upon initial recognition or, in instances of variable interest rates, recalculated due to the most recent change in the interest rate).

Collective Assessment

Within the collective impairment methodology, both the credit risk and changes in the credit risk may be appropriately comprehended by understanding the characteristics of the portfolio risks. For this purpose, the main risk triggers are identified and used for creation of homogenous groups with similar risk characteristics.

Based on these homogenous portfolio segments migration matrices are formed, which are subsequently used in calculation of credit risk parameters (PD – probability of default, LGD – loss given default, EAD – exposure at default)

PD, LGD and EAD are parameters derived from the internally developed statistical models and other historical data adjusted in such a manner that they reflect probability-weighted forward-looking information.

PD is an estimate of default within the specified time horizon.. PD is estimated taking into account contractual maturities and estimated recovery rates, based on the current conditions that are adjusted for estimated future conditions (forward-looking information), which will affect PD (e.g., effects of macroeconomic factors). The migration matrix methodology applicable by the Bank is based on the groups (or buckets) of days past due in payment, default status designation, restructuring (forbearance) designation and information on the behavioral credit rating.

The Bank calculates PD in the following two manners:

- for Stage 1 receivables the overall loss rate is used, obtained by means of estimating 12-month PD;
- for Stage 2 and Stage 3 receivables, the lifetime expected credit loss rate is used.

LGD is an estimate of the loss resulting from default, based on the difference between the contractual cash flows and the cash flows the Bank expects to receive taking into account the collateral foreclosure cash flows. LGD models for securitized receivables consider forecasts of the future collateral appraisal taking into account certain haircuts, periods up to collateral realization, cross-collateralization and the lifetime of the financial assets, collateral sale costs and cure rates (transfer from the non-performing to the performing status). LGD models for unsecured receivables take into account recovery time, recovery rates and the lifetime of receivables. LGD is calculated by discounting the cash flows.

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

Definition of ECL on the Individual and Collective Bases of Assessment (Continued)

The Bank applies the following LGD calculations, depending on the type of collateral:

- Retail mortgage and housing loans and corporate and SME portfolio: modified LGL methodology based on the Asset Quality Review. The primary source of information here is the collateral itself, yet the Bank considers recovery from the operating cash flows as well.
- Consumer loans and other unsecuritized exposures: LGL methodology based on the recovery from the cash flows relying on the historical data.

EAD is an estimate of an exposure at a future default date, taking into account the expected changes in the exposure after the reporting date, including payments of the principal and interest amounts. OTP Group calculates EAD in two ways:

- using an appropriate model,
- or using the data from the Bank's information system, primarily on the loan repayment schedules (the Bank is currently using the latter method to determine EAD).

In calculating EAD for off-balance sheet exposures, the Bank uses migration factors, i.e., credit conversion factors (CCF). These are somewhat different from the credit conversion factors used for the capital adequacy calculation as required by the regulator. OTP Group uses several statistical models to determine EAD and the Group members (the Bank among them) without sufficiently large data samples necessary for modelling use the predefined CCF for portfolios with low default rates.

In this phase of IFRS 9 implementation, historical PD values are determined by the Bank on its own, while the transformation of the historical PDs (by including forward-looking information forecasts) and LGD calculation are performed by the Parent Bank. EAD is calculated locally, based on the amortization repayment schedules stored in the Bank's information system..

OTP Group uses forward-looking information available without undue cost or effort in assessing whether there has been a significant increase in credit risk and in ECL measurement. The Group hires experts to generate, using the external and internal information, a "base case" scenario for future forecasts of macroeconomic variables along with a range or other possible forecast scenarios. These experts belong to an expert team formed at the Group level to be in charge of calculation of the macroeconomic scenarios for all the Group members (as part of the ICAAP team). The main variable here is the forecast GDP, but other macroeconomic variables are also used (employment rate, movements in foreign exchange rates, interest rates) within the model developed for ICAAP purposes at the Group level.

For collective ECL assessment, the Bank uses five scenarios altogether, ranging from the optimistic ones (lower PD) to pessimistic scenarios (higher PD) weighted by probability of occurrence. The second most optimistic scenario has the highest probability of occurrence (the highest weight). External information used for scenario modelling include economic data and forecasts published by the government and monetary authorities.

Individual Assessment

Estimate of the expected cash flows ought to be focused on the future yet it must include effects of the possible changes in the macroeconomic forecasts. In estimating the expected cash flows at least two scenarios must be used. One of the scenarios should envisage that the realized cash flows will be significantly different from the contractual ones. Each of the scenarios is to be assigned a probability weight. Probability weights must be assigned to the individual scenarios. For calculation of the financial asset's impairment the present value must be used, calculated as the weighted average of the individual scenarios used.

The estimate must reflect the probability of credit loss occurrence/non-occurrence, even if the non-occurrence of the loss is the most likely outcome.

Updates of ECL Calculation Parameters

Parameters for calculation of the collective impairment allowance must be updated at least annually and the results are to be approved by the Parent Bank's Collective Impairment Committee. Due to the changes in the macroeconomic environment (the Covid-19 pandemic), the Group adapted to the assessment techniques and assumptions used during the reporting period to the newly arisen circumstances.

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Maximum Credit Risk Exposure

The Bank's maximum credit risk exposures, without taking into account collaterals or other credit risk mitigation methods, as of December 31, 2020 and December 31, 2019, are provided in the tables below. For on-balance sheet items, the exposures represent net carrying value s of receivables as per the balance sheet (statement of financial position) items.

	Assets exposing the Bank to credit risk				
December 31, 2020	**Gross carrying value**	**Accumulated impairment allowance/provisions**	**Net carrying value**	**Assets not exposing the Bank to credit risk**	**Value reported in the Statement of financial position**
On-balance sheet items					
Cash and balances held with the central bank	24,330,842	-	24,330,842	8,920,747	33,251,589
Pledged financial assets	1,177,302	-	1,177,302	317,494	1,494,796
Financial assets at FVtPL, held for trading	-	-	-	29,921	29,921
Financial assets at FVtOCI	17,187,394	-	17,187,394	41,128	17,228,522
Loans and receivables due from banks and other financial institutions	5,289,900	334,032	4,955,868	-	4,955,868
Loans and receivables due from customers	176,741,919	6,748,764	169,993,155	-	169,993,155
Investments in subsidiaries	-	-	-	441,416	441,416
Intangible assets	-	-	-	641,087	641,087
Property, plant and equipment	-	-	-	9,355,003	9,355,003
Investment property	-	-	-	150,125	150,125
Current tax assets	-	-	-	40,464	40,464
Deferred tax assets	-	-	-	400,041	400,041
Non-current assets held for sale and discontinued operations	-	-	-	6,164	6,164
Other assets	-	-	-	1,193,332	1,193,332
Total on-balance sheet exposure	**224,727,357**	**7,082,796**	**217,644,561**	**21,536,922**	**239,181,483**
Off-balance sheet items					
Guarantees and sureties issued	8,077,706	50,745	8,026,961	-	8,026,962
Credit commitments	32,081,892	186,710	31,895,182	-	31,895,182
Total off-balance sheet exposure	**40,159,598**	**237,455**	**39,922,143**	**-**	**39,922,143**
Total credit risk exposure	**264,886,955**	**7,320,251**	**257,566,704**	**21,536,922**	**279,103,626**

*According to the Bank's internal Policy on Assessing Impairment of the Balance Sheet Assets and Provisions for Probable Losses per Off-Balance Sheet Items under IFRS 9, loans and receivables due from banks with maturities shorter than 3 months are not subject to impairment allowance (provisioning).

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Maximum Credit Risk Exposure (Continued)

	Assets exposing the Bank to credit risk				
December 31, 2019	**Gross carrying value**	**Accumulated impairment allowance/provisions**	**Net carrying value**	**Assets not exposing the Bank to credit risk**	**Value reported in the Statement of financial position**
On-balance sheet items					
Cash and balances held with the central bank	31,004,448	-	31,004,448	9,299,515	40,303,963
Pledged financial assets	389,380	-	389,380	231,843	621,223
Financial assets at FVtPL, held for trading	-	-	-	9,452	9,452
Financial assets at FVtOCI	11,328,714	-	11,328,714	2,253,248	13,581,962
Loans and receivables due from banks and other financial institutions	6,709,414	366,104	6,343,310	-	6,343,310
Loans and receivables due from customers	146,369,324	4,766,992	141,602,332	-	141,602,332
Investments in subsidiaries	-	-	-	441,416	441,416
Intangible assets	-	-	-	635,666	635,666
Property, plant and equipment	-	-	-	9,522,112	9,522,112
Investment property	-	-	-	162,208	162,208
Deferred tax assets	-	-	-	350,700	350,700
Non-current assets held for sale and discontinued operations	-	-	-	3,372	3,372
Other assets	-	-	-	1,470,861	1,470,861
Total on-balance sheet exposure	**195,801,280**	**5,133,096**	**190,668,184**	**24,380,393**	**215,048,577**
Off-balance sheet items					
Guarantees and sureties issued	8,880,339	28,218	8,852,121	-	8,852,121
Credit commitments	24,130,792	70,360	24,060,432	-	24,060,432
Total off-balance sheet exposure	**33,011,131**	**98,578**	**32,912,553**	**-**	**32,912,553**
Total credit risk exposure	**228,812,411**	**5,231,674**	**223,580,737**	**24,380,393**	**247,961,130**

*According to the Bank's internal Policy on Assessing Impairment of the Balance Sheet Assets and Provisions for Probable Losses per Off-Balance Sheet Items under IFRS 9, loans and receivables due from banks with maturities shorter than 3 months are not subject to impairment allowance (provisioning).

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

The gross carrying value and accumulated impairment of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) per Stage as of December 31, 2020:

	Gross carrying value					Accumulated impairment					
December 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Carrying value**
Cash and balances held with the central bank	24,330,842	-	-	-	24,330,842	-	-	-	-	-	**24,330,842**
Pledged financial assets	1,177,302	-	-	-	1,177,302	-	-	-	-	-	**1,177,302**
Loans and receivables due from banks	4,956,188	-	333,712	-	5,289,900	320	-	333,712	-	**334,032**	**4,955,868**
Housing loans*	18,454,294	2,052,355	624,717	446,445	21,577,811	171,954	222,652	475,530	214,045	**1,084,181**	**20,493,630**
Loans and receivables due from large and medium-sized entities	83,828,508	3,873,221	881,987	566,708	89,150,424	528,794	437,146	709,443	443,500	**2,118,883**	**87,031,541**
Consumer loans	54,165,225	4,403,073	2,728,070	293,949	61,590,317	591,448	668,181	1,752,206	226,547	**3,238,382**	**58,351,935**
Loans and receivables due from small and micro entities	1,834,377	152,849	77,649	74,207	2,139,082	36,116	22,719	67,062	61,951	**187,848**	**1,951,234**
Loans and receivables due from municipalities	2,225,245	-	59,040	-	2,284,285	60,430	-	59,040	-	**119,470**	**2,164,815**
Loans at amortized cost (due from banks and customers)	**165,463,837**	**10,481,498**	**4,705,175**	**1,381,309**	**182,031,819**	**1,389,062**	**1,350,698**	**3,396,993**	**946,043**	**7,082,796**	**174,949,023**
Securities at FVtOCI	17,187,394	-	-	-	17,187,394	**-**	-	-	-	-	**17,187,394**
Total financial assets	**208,159,375**	**10,481,498**	**4,705,175**	**1,381,309**	**224,727,357**	**1,389,062**	**1,350,698**	**3,396,993**	**946,043**	**7,082,796**	**217,644,561**
Guarantees and sureties issued	8,036,298	40,001	1,408	-	8,077,707	46,876	2,643	1,227	-	50,745	**8,026,961**
Credit commitments	31,723,379	336,527	21,985	-	32,081,891	175,987	3,351	7,371	-	186,710	**31,895,182**
Total off-balance sheet exposure	**39,759,677**	**376,528**	**23,393**	**-**	**40,159,598**	**222,863**	**5,994**	**8,598**	**-**	**237,455**	**39,922,143**

*Line item of housing loans include cash loans secured with mortgages

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

The gross carrying value and accumulated impairment of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) per Stage as of December 31, 2019:

	Gross carrying value					Accumulated impairment					
December 31, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Carrying value**
Cash and balances held with the central bank	31,004,448	-	-	-	31,004,448	-	-	-	-	-	**31,004,448**
Pledged financial assets	389,380	-	-	-	389,380	-	-	-	-	-	**389,380**
Loans and receivables due from banks	6,343,339	-	366,075	-	6,709,414	29	-	366,075	-	366,104	**6,343,310**
Housing loans*	17,238,428	1,677,348	625,958	513,754	20,055,488	39,560	79,072	398,783	159,928	677,343	**19,378,145**
Loans and receivables due from large and medium-sized entities	70,382,615	233,717	1,137,133	647,356	72,400,821	184,023	7,452	1,017,381	484,951	1,693,807	**70,707,014**
Consumer loans	46,592,452	1,738,969	2,400,636	430,000	51,162,057	290,360	137,418	1,509,050	281,594	2,218,422	**48,943,635**
Loans and receivables due from small and micro entities	1,056,773	53,626	55,804	75,975	1,242,178	16,089	3,464	43,582	40,403	103,538	**1,138,640**
Loans and receivables due from municipalities	1,446,967	-	61,813	-	1,508,780	12,069	-	61,813	-	73,882	**1,434,898**
Loans at amortized cost (due from banks and customers)	**143,060,574**	**3,703,660**	**4,647,419**	**1,667,085**	**153,078,738**	**542,130**	**227,406**	**3,396,684**	**966,876**	**5,133,096**	**147,945,642**
Securities at FVtOCI	11,328,714	-	-	-	11,328,714	-	-	-	-	-	11,328,714
Total financial assets	**185,783,116**	**3,703,660**	**4,647,419**	**1,667,085**	**195,801,280**	**542,130**	**227,406**	**3,396,684**	**966,876**	**5,133,096**	**190,668,184**
Guarantees and sureties issued	8,878,794	-	1,545	-	8,880,339	24,555	-	3,663	-	28,218	8,852,121
Credit commitments	24,057,916	49,755	23,121	-	24,130,792	57,151	4,648	8,561	-	70,360	24,060,432
Total off-balance sheet exposure	**32,936,710**	**49,755**	**24,666**	**-**	**33,011,131**	**81,706**	**4,648**	**12,224**	**-**	**98,578**	**32,912,553**

*Line item of housing loans include cash loans secured with mortgages

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019:

Cash and balances held with the central bank	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**31,004,448**	**-**	**-**	**-**	**31,004,448**
Movements of the gross carrying value					**-**
Transfer to Stage 1	**-**	**-**	-	-	
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Exposure increase without transfer to another Stage	6,153,521	-	-	-	**6,153,521**
Exposure decrease without transfer to another Stage	(3,848,917)	-	-	-	**(3,848,917)**
Increase due to origination and acquisition	-	-	-	-	**-**
Decrease due to derecognition	(8,978,210)	-	-	-	**(8,978,210)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**24,330,842**	**-**	**-**	**-**	**24,330,842**
Accumulated impairment at December 31, 2020	-	-	-	-	-

Cash and balances held with the central bank	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2018	**10,640,640**	**-**	**-**	**-**	**10,640,640**
Increase due to merger of Vojvođanska banka and OTP Bank	9,008,909	-	-	-	9,008,909
Movements of the gross carrying value					
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Exposure increase without transfer to another Stage	11,420,127	-	-	-	**11,420,127**
Exposure decrease without transfer to another Stage	(65,228)	-	-	-	**(65,228)**
Increase due to origination and acquisition	-	-	-	-	**-**
Decrease due to derecognition	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2019	**31,004,448**	**-**	**-**	**-**	**31,004,448**
Accumulated impairment at December 31, 2019	-	-	-	-	-

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Pledged financial assets	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**389,380**	**-**	**-**	**-**	**389,380**
Movements of the gross carrying value	-	-	-	-	
Transfer to Stage 1	-	-	-	-	
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Exposure increase without transfer to another Stage	-	-	-	-	-
Exposure decrease without transfer to another Stage	-	-	-	-	-
Increase due to origination and acquisition	1,177,301	-	-	-	**1,177,301**
Decrease due to derecognition	(389,379)	-	-	-	**(389,379)**
Decrease due to write-off	-	-	-	-	-
Sales	-	-	-	-	-
Other adjustments	-	-	-	-	-
Gross carrying value at December 31, 2020	**1,177,302**	**-**	**-**	**-**	**1,177,302**
Accumulated impairment at December 31, 2020	-	-	-	-	-

Pledged financial assets	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2018	**113,728**	**-**	**-**	**-**	**113,728**
Increase due to merger of Vojvođanska banka and OTP Bank	-	-	-	-	-
Movements of the gross carrying value					
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Exposure increase without transfer to another Stage	-	-	-	-	-
Exposure decrease without transfer to another Stage	-	-	-	-	-
Increase due to origination and acquisition	**389,380**	-	-	-	**389,380**
Decrease due to derecognition	**(113,728)**	-	-	-	**(113,728)**
Decrease due to write-off	-	-	-	-	-
Sales	-	-	-	-	-
Other adjustments	-	-	-	-	-
Gross carrying value at December 31, 2019	**389,380**	**-**	**-**	**-**	**389,380**
Accumulated impairment at December 31, 2019	-	-	-	-	-

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**6,343,339**	**-**	**366,075**	**-**	**6,709,414**
Movements of the gross carrying value					**-**
Transfer to Stage 1	**45**	**-**	**(45)**	**-**	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	(13)	-	13	-	**-**
Exposure increase without transfer to another Stage	1,578,430	-	-	-	**1,578,430**
Exposure decrease without transfer to another Stage	(1,521,294)	-	(32,394)	-	**(1,553,688)**
Increase due to origination and acquisition	797,592	-	63	-	**797,655**
Decrease due to derecognition	(2,241,890)	-	-	-	**(2,241,890)**
Decrease due to write-off	(1)	-	-	-	**(1)**
Sales	-	-	-	-	**-**
Other adjustments	(20)	-	-	-	**(20)**
Gross carrying value at December 31, 2020	**4,956,188**	**-**	**333,712**	**-**	**5,289,900**
Accumulated impairment at December 31, 2020	(320)	-	(333,712)	-	(334,032)

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2018	**6,404,724**	**-**	**362,453**	**-**	**6,767,177**
Increase due to merger of Vojvođanska banka and OTP Bank	4,181,772	-	1	-	4,181,773
Movements of the gross carrying value					
Transfer to Stage 1	8	-	(8)	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	(10)	-	10	-	**-**
Exposure increase without transfer to another Stage	1,195,658	-	3,756	-	1,199,414
Exposure decrease without transfer to another Stage	(1,613,303)	-	(9)	-	(1,613,312)
Increase due to origination and acquisition	2,326,836	-	324	-	**2,327,160**
Decrease due to derecognition	(6,152,266)	-	(12)	-	**(6,152,278)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	(80)	-	(440)	-	**(520)**
Gross carrying value at December 31, 2019	**6,343,339**	**-**	**366,075**	**-**	**6,709,414**
Accumulated impairment at December 31, 2019	(29)	-	(366,075)	-	(366,104)

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Securities at FVtOCI and securities at AC	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**11,328,714**	**-**	**-**	-	**11,328,714**
Movements of the gross carrying value	**-**	**-**	**-**	-	**-**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Exposure increase without transfer to another Stage	-	-	-	-	**-**
Exposure decrease without transfer to another Stage	(105,458)	-	-	-	**(105,458)**
Increase due to origination and acquisition	10,506,028	-	-	-	**10,506,028**
Decrease due to derecognition	(4,541,890)	-	-	-	**(4,541,890)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**--**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**17,187,394**	**-**	**-**	**-**	**17,187,394**
Accumulated impairment at December 31, 2020	-	-	-	-	-

Securities at FVtOCI and securities at AC	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2018	**4,663,496**	**-**	**489,605**	**-**	**5,153,101**
Increase due to merger of Vojvođanska banka and OTP Bank	8,364,203	-	-	-	**8,364,203**
Movements of the gross carrying value					**-**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Exposure increase without transfer to another Stage	318,569	-	-	-	**318,569**
Exposure decrease without transfer to another Stage	(420,524)	-	-	-	**(420,524)**
Increase due to origination and acquisition	4,167,610	-	-	-	**4,167,610**
Decrease due to derecognition	(5,764,640)	-	-	-	**(5,764,640)**
Decrease due to write-off	-	-	(249,170)	-	**(249,170)**
Sales	-	-	-	-	**-**
Other adjustments	-	-	(240,435)	-	**(240,435)**
Gross carrying value at December 31, 2019	**11,328,714**	**-**	**-**	**-**	**11,328,714**
Accumulated impairment at December 31, 2019					

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**136,717,235**	**3,703,660**	**4,281,344**	**1,667,085**	**146,369,324**
Movements of the gross carrying value					**-**
Transfer to Stage 1	1,329,602	(1,287,997)	(41,567)	(38)	**-**
Transfer to Stage 2	(5,464,108)	5,539,413	(97,421)	22,116	**-**
Transfer to Stage 3	(565,664)	(402,747)	990,489	(22,078)	**-**
Exposure increase without transfer to another Stage	672,076	18,257	41,682	385,647	**1,117,662**
Exposure decrease without transfer to another Stage	(14,087,178)	(281,009)	(180,832)	(132,749)	**(14,681,768)**
Increase due to origination and acquisition	72,788,216	3,602,841	459,106	29,752	**76,879,915**
Decrease due to derecognition	(30,871,550)	(410,469)	(563,547)	(74,410)	**(31,919,976)**
Decrease due to write-off	(11,000)	(451)	(517,791)	(118,816)	**(648,058)**
Sales	-	-	-	(375,200)	**(375,200)**
Other adjustments	20	-	-	-	**20**
Gross carrying value at December 31, 2020	**160,507,649**	**10,481,498**	**4,371,463**	**1,381,309**	**176,741,919**
Accumulated impairment at December 31, 2020	(1,388,742)	(1,350,698)	(3,063,281)	(946,043)	**(6,748,764)**

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2018	**42,079,434**	**2,452,300**	**3,686,226**	**418,668**	**48,636,628**
Increase due to merger of Vojvođanska banka and OTP Bank	84,383,967	3,875,906	1,019,998	1,851,402	91,131,273
Movements of the gross carrying value					-
Transfer to Stage 1	535,773	(442,283)	(93,490)	-	-
Transfer to Stage 2	(2,043,582)	2,126,157	(106,913)	24,338	-
Transfer to Stage 3	(565,605)	(583,877)	1,159,639	(10,157)	-
Exposure increase without transfer to another Stage	1,253,229	6,403	34,954	187,067	1,481,653
Exposure decrease without transfer to another Stage	(13,675,192)	(314,854)	(231,595)	(59,279)	(14,280,920)
Increase due to origination and acquisition	59,658,497	901,291	246,422	361,535	61,167,745
Decrease due to derecognition	(34,909,243)	(4,317,354)	(962,966)	(698,337)	(40,887,900)
Decrease due to write-off	(123)	(29)	(450,246)	(391,968)	(842,366)
Sales	-	-	(21,125)	(16,184)	(37,309)
Other adjustments	80	-	440	-	520
Gross carrying value at December 31, 2019	**136,717,235**	**3,703,660**	**4,281,344**	**1,667,085**	**146,369,324**
Accumulated impairment at December 31, 2019	(542,101)	(227,406)	(3,030,609)	(966,876)	(4,766,992)

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**24,057,916**	**49,755**	**23,121**	**-**	**24,130,792**
Movements of the gross carrying value					**-**
Transfer to Stage 1	35,414	(32,796)	(2,618)	-	**-**
Transfer to Stage 2	(20,226)	20,619	(393)	-	**-**
Transfer to Stage 3	(6,819)	(1,440)	8,259	-	**-**
Exposure increase without transfer to another Stage	3,990,235	12,379	2,391	-	**4,005,005**
Exposure decrease without transfer to another Stage	(2,783,427)	(3,747)	(692)	-	**(2,787,866)**
Increase due to origination and acquisition	18,253,415	309,042	920	-	**18,563,377**
Decrease due to derecognition	(11,803,129)	(17,285)	(9,003)	-	**(11,829,417)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**31,723,379**	**336,527**	**21,985**	**-**	**32,081,891**
Accumulated impairment at December 31, 2020	(175,987)	(3,351)	(7,371)	-	(186,709)

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2018	**9,890,167**	**5,743**	**16,902**	**-**	**9,912,812**
Increase due to merger of Vojvođanska banka and OTP Bank	14,980,921	180,709	9,296	-	15,170,926
Movements of the gross carrying value					-
Transfer to Stage 1	10,096	(4,943)	(5,153)	-	-
Transfer to Stage 2	(37,507)	38,604	(1,097)	-	-
Transfer to Stage 3	(9,936)	(1,616)	11,552	-	-
Exposure increase without transfer to another Stage	1,935,191	2,339	2,174	-	1,939,704
Exposure decrease without transfer to another Stage	(5,077,433)	(973)	(1,629)	-	(5,080,035)
Increase due to origination and acquisition	16,805,137	9,058	1,604	-	16,815,799
Decrease due to derecognition	(14,438,720)	(179,166)	(10,528)	-	(14,628,414)
Decrease due to write-off	-	-	-	-	-
Sales	-	-	-	-	-
Other adjustments	-	-	-	-	-
Gross carrying value at December 31, 2019	**24,057,916**	**49,755**	**23,121**	**-**	**24,130,792**
Accumulated impairment at December 31, 2019	(57,151)	(4,648)	(8,561)	**-**	(70,360)

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**8,878,794**	**-**	**1,545**	**-**	**8,880,339**
Movements of the gross carrying value					**-**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	(33,691)	33,691	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Exposure increase without transfer to another Stage	14,583	-	-	-	**14,583**
Exposure decrease without transfer to another Stage	(286,425)	-	(137)	-	**(286,562)**
Increase due to origination and acquisition	5,376,857	6,310	-	-	**5,383,167**
Decrease due to derecognition	(5,913,820)	-	-	-	**(5,913,820)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**8,036,298**	**40,001**	**1,408**	**-**	**8,077,707**
Accumulated impairment at December 31, 2020	(46,876)	(2,643)	(1,227)	-	(50,746)

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
	4,426,032	**-**	**11,553**	**-**	**4,437,585**
Gross carrying value at December 31, 2018					
Increase due to merger of Vojvođanska banka and OTP Bank	3,651,244	-	3,052	-	3,654,296
Movements of the gross carrying value					-
Transfer to Stage 1	1,830	-	(1,830)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Exposure increase without transfer to another Stage	68,307	-	-	-	68,307
Exposure decrease without transfer to another Stage	(50,925)	-	(12)	-	(50,937)
Increase due to origination and acquisition	5,817,056	-	-	-	5,817,056
Decrease due to derecognition	(5,034,750)	-	(11,218)	-	(5,045,968)
Decrease due to write-off	-	-	-	-	-
Sales	-	-	-	-	-
Other adjustments	-	-	-	-	-
Gross carrying value at December 31, 2019	**8,878,794**	**-**	**1,545**	**-**	**8,880,339**
Accumulated impairment at December 31, 2019	(24,555)	-	(3,663)	-	(28,218)

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

For improved informative nature of disclosures in respect of the change in the quality of credit risk exposed receivables and isolation of the impact of such changes on the Bank's profit for the year, the Bank used a more detailed presentation for transfers among impairment allowance Stages for 2020.

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019:

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(29)**	**-**	**(366,075)**	**-**	**(366,104)**
Movements of the impairment allowance	**(291)**	**-**	**2,410**	**-**	**2,119**
Increase due to credit risk increase	**-**	**-**	**-**	**-**	**-**
Decrease due to credit risk decrease	-	-	46	-	**46**
Increase without a change in credit risk	-	-	(3,951)	-	**(3,951)**
Decrease without a change in credit risk	-	-	6,315	-	**6,315**
Decrease - other	-	-	-	-	**-**
Increase - other	(291)	-	-	-	**(291)**
Increase due to origination and acquisition	-	-	(2,164)	-	**(2,164)**
Repaid financial assets	-	-	2	-	**2**
Effects of the model change (risk parameters)	-	-	-	-	**-**
Total net gains and losses on impairment	**-**	**-**	**-**	**-**	**-**
Sold financial assets	-	-	-	-	**-**
Derecognized financial assets (but not due to sales)	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Modification effects	-	-	-	-	**-**
Other adjustments (foreign exchange effects)	-	-	32,115	**-**	**32,115**
Transfer to Stage 1	46	-	(46)	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Impairment allowance at December 31, 2020	**(320)**	**-**	**(333,712)**	**-**	**(334,032)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2018	(1,564)	-	(360,894)	-	(362,458)
Increase due to merger of Vojvođanska banka and OTP Bank	(191)	-	-	-	(191)
Movements of the impairment allowance					
Increase due to credit risk increase	(3)	-	(160)	-	(163)
Decrease due to credit risk decrease	-	-	-	-	-
Increase without a change in credit risk	(4,020)	-	(177)	-	(4,197)
Decrease without a change in credit risk	8,857	-	-	-	8,857
Increase due to origination and acquisition	(3,216)	-	-	-	(3,216)
Repaid financial assets	3,084	-	11	-	3,095
Effects of the model change (risk parameters)	(2,970)	-	-	-	(2,970)
Total net gains and losses on impairment					
Sold financial assets	-	-	-	-	-
Derecognized financial assets (but not due to sales)	-	-	-	-	-
Decrease due to write-off	-	-	-	-	-
Modification effects	-	-	-	-	-
Other adjustments (foreign exchange effects)	-	-	(4,861)	-	(4,861)
Transfer to Stage 1	(6)	-	6	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Impairment allowance at December 31, 2019	**(29)**	**-**	**(366,075)**	**-**	**(366,104)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Securities at FVtOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	-	-	-	-	-
Movements of the impairment allowance	-	-	-	-	-
Increase due to credit risk increase	-	-	-	-	-
Decrease due to credit risk decrease	-	-	-	-	-
Increase without a change in credit risk	-	-	-	-	-
Decrease without a change in credit risk	-	-	-	-	-
Increase due to origination and acquisition	-	-	-	-	-
Repaid financial assets	-	-	-	-	-
Effects of the model change (risk parameters)	-	-	-	-	-
Total net gains and losses on impairment	-	-	-	-	-
Sold financial assets	-	-	-	-	-
Derecognized financial assets (but not due to sales)	-	-	-	-	-
Decrease due to write-off	-	-	-	-	-
Modification effects	-	-	-	-	-
Other adjustments (foreign exchange effects)	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Impairment allowance at December 31, 2020	**-**	**-**	**-**	**-**	**-**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Securities at FVtOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2018	(1,244)	-	(489,605)	-	(490,849)
Increase due to merger of Vojvođanska banka and OTP Bank	-	-	-	-	-
Movements of the impairment allowance					
Increase due to credit risk increase	-	-	-	-	-
Decrease due to credit risk decrease	-	-	-	-	-
Increase without a change in credit risk	-	-	-	-	-
Decrease without a change in credit risk	1,062	-	-	-	1,062
Increase due to origination and acquisition	-	-	-	-	-
Repaid financial assets	-	-	-	-	-
Effects of the model change (risk parameters)	-	-	-	-	-
Total net gains and losses on impairment	1,062	-	-	-	1,062
Sold financial assets	-	-	-	-	-
Derecognized financial assets (but not due to sales)	-	-	-	-	-
Decrease due to write-off	-	-	249,170	-	249,170
Modification effects	182	-	240,435	-	240,617
Other adjustments (foreign exchange effects)	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Impairment allowance at December 31, 2019	**-**	**-**	**-**	**-**	**-**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(542,101)**	**(227,406)**	**(3,030,609)**	**(966,876)**	**(4,766,992)**
Movements of the impairment allowance	**(150,793)**	**(1,048,723)**	**(864,535)**	**(90,946)**	**(2,154,997)**
Increase due to credit risk increase		(1,166,168)	(644,127)	(1,709)	**(1,812,004)**
Decrease due to credit risk decrease	302,048	42,556	-	7,640	**352,244**
Increase without a change in credit risk	(1,502,136)	(189,124)	(1,144,224)	(503,270)	**(3,338,754)**
Decrease without a change in credit risk	1,053,321	262,684	918,861	407,586	**2,642,452**
Decrease - other	-	1,398	4,955	15	**6,368**
Increase - other	(4,026)	(69)	-	(1,208)	**(5,303)**
Increase due to origination and acquisition	(696,597)	(74,724)	(55,113)	(40)	**(826,474)**
Repaid financial assets	-	-	-	-	**-**
Effects of the model change (risk parameters)	-	-	-	-	**-**
Total net gains and losses on impairment	**536**	**102**	**534,191**	**111,943**	**646,772**
Sold financial assets	-	-	-	3,346	**3,346**
Derecognized financial assets (but not due to sales)	-	93	-	-	**93**
Decrease due to write-off	536	9	534,191	108,597	**643,333**
Modification effects		-	-	-	**-**
Other adjustments (foreign exchange effects)	213	53	352,785	(124)	**352,927**
Transfer to Stage 1	(330,281)	293,143	37,450	(312)	**-**
Transfer to Stage 2	100,534	(164,292)	70,975	(7,217)	**-**
Transfer to Stage 3/POCI	10,324	197,988	(215,841)	7,529	**-**
Impairment allowance at December 31, 2020	**(1,388,742)**	**(1,350,698)**	**(3,063,281)**	**(946,043)**	**(6,748,764)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2018	(261,943)	(264,378)	(2,697,402)	(345,504)	(3,569,227)
Increase due to merger of Vojvođanska banka and OTP Bank	(307,059)	(424,744)	(1,046,271)	(92,615)	(1,870,689)
Movements of the impairment allowance					
Increase due to credit risk increase	-	(233,183)	(491,102)	(3,015)	(727,300)
Decrease due to credit risk decrease	209,017	58,274	-	4,435	271,726
Increase without a change in credit risk	(254,095)	(246,326)	(787,798)	(799,644)	(2,087,863)
Decrease without a change in credit risk	408,326	137,604	922,920	184,411	1,653,261
Increase due to origination and acquisition	(288,435)	(387)	(28,144)	(15)	(316,981)
Repaid financial assets	115,538	121,595	153,881	-	391,014
Effects of the model change (risk parameters)	217,768	53,333	137,392	(482,319)	(73,826)
Total net gains and losses on impairment	408,119	(109,090)	(92,851)	(1,096,147)	(889,969)
Sold financial assets	-	-	10,518	7,658	18,176
Derecognized financial assets (but not due to sales)	-	64,992	343,389	162,470	570,851
Decrease due to write-off	7	1	448,521	399,888	848,417
Modification effects	-	-	-	-	-
Other adjustments (foreign exchange effects)	857	198	127,020	(2,626)	125,449
Transfer to Stage 1	(438,312)	430,752	7,744	(184)	-
Transfer to Stage 2	53,630	(135,559)	83,925	(1,996)	-
Transfer to Stage 3	2,600	210,422	(215,202)	2,180	-
Impairment allowance at December 31, 2019	**(542,101)**	**(227,406)**	**(3,030,609)**	**(966,876)**	**(4,766,992)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(24,555)**	**-**	**(3,663)**	**-**	**(28,218)**
Movements of the impairment allowance	**(25,949)**	**(2,664)**	**(2,305)**	**-**	**(30,918)**
Increase due to credit risk increase	**-**	**(2,419)**	**(3,608)**	**-**	**(6,027)**
Decrease due to credit risk decrease	-	-	-	-	**-**
Increase without a change in credit risk	(54,010)	(481)	(12)	-	**(54,503)**
Decrease without a change in credit risk	28,061	198	1,180	-	**29,439**
Decrease - other	-	38	135	-	**173**
Increase - other	-	-	-	-	**-**
Increase due to origination and acquisition	(35,080)	(11)	-	-	**(35,091)**
Repaid financial assets	38,656	32	4,623	-	**43,311**
Effects of the model change (risk parameters)	-	-	-	-	**-**
Total net gains and losses on impairment	**-**	**-**	**-**	**-**	**-**
Sold financial assets	-	-	-	-	**-**
Derecognized financial assets (but not due to sales)	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Modification effects	-	-	-	-	**-**
Other adjustments (foreign exchange effects)	52	-	118	-	**170**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	769	(769)	-	-	**-**
Transfer to Stage 3	331	-	(331)	-	**-**
Impairment allowance at December 31, 2020	**(46,876)**	**(2,643)**	**(1,227)**	**-**	**(50,746)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2018	(15,061)	-	(3,272)	-	(18,333)
Increase due to merger of Vojvođanska banka and OTP Bank	(3,527)	(158)	(996)	-	(4,681)
Movements of the impairment allowance					
Increase due to credit risk increase	-	-	(581)	-	(581)
Decrease due to credit risk decrease	1,915	-	-	-	1,915
Increase without a change in credit risk	(19,658)	-	(507)	-	(20,165)
Decrease without a change in credit risk	29,949	-	(253)	-	29,696
Increase due to origination and acquisition	(23,050)	-	-	-	(23,050)
Repaid financial assets	20,132	5	652	-	20,789
Effects of the model change (risk parameters)	(13,091)	-	(727)	-	(13,818)
Total net gains and losses on impairment	**(3,803)**	**5**	**(1,416)**	**-**	**(5,214)**
Sold financial assets	-	-	-	-	-
Derecognized financial assets (but not due to sales)	-	-	-	-	-
Decrease due to write-off	-	-	-	-	-
Modification effects	-	-	-	-	-
Other adjustments (foreign exchange effects)	32	-	(22)	-	10
Transfer to Stage 1	(2,259)	158	2,101	-	-
Transfer to Stage 2	5	(5)	-	-	-
Transfer to Stage 3	58	-	(58)	-	-
Impairment allowance at December 31, 2019	**(24,555)**	**-**	**(3,663)**	**-**	**(28,218)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(57,151)**	**(4,648)**	**(8,561)**	**-**	**(70,360)**
Movements of the impairment allowance	**(27,282)**	**6,796**	**(2,682)**	**-**	**(23,168)**
Increase due to credit risk increase	**-**	**(5,337)**	**(4,230)**	**-**	**(9,567)**
Decrease due to credit risk decrease		319	-	-	**319**
Increase without a change in credit risk	(314,976)	(3,787)	(5,036)	-	**(323,799)**
Decrease without a change in credit risk	287,723	15,539	6,513	-	**309,775**
Decrease - other	-	66	71	-	**137**
Increase - other	(29)	(4)	-	-	**(33)**
Increase due to origination and acquisition	(295,125)	(5,230)	(2,565)	-	**(302,920)**
Repaid financial assets	203,563	(269)	6,437	-	**209,731**
Effects of the model change (risk parameters)	-	-	-	-	**-**
Total net gains and losses on impairment	**-**	**-**	**-**	**-**	**-**
Sold financial assets	-	-	-	-	**-**
Derecognized financial assets (but not due to sales)	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Modification effects	-	-	-	-	**-**
Other adjustments (foreign exchange effects)	8	-	-	-	**8**
Transfer to Stage 1	(1,813)		1,813	-	**-**
Transfer to Stage 2	1,046	(1,426)	380	-	**-**
Transfer to Stage 3	102	488	(590)	-	**-**
Impairment allowance at December 31, 2020	**(175,987)**	**(3,351)**	**(7,371)**	**-**	**(186,709)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2020 and December 31, 2019 (Continued):

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2018	(27,424)	(127)	(1,953)	-	(29,504)
Increase due to merger of Vojvođanska banka and OTP Bank	(25,196)	(1,962)	(1,560)	-	(28,718)
Movements of the impairment allowance					
Increase due to credit risk increase	-	(972)	(1,828)	-	(2,800)
Decrease due to credit risk decrease	5,265	101	-	-	5,366
Increase without a change in credit risk	(57,434)	(4,303)	(7,929)	-	(69,666)
Decrease without a change in credit risk	80,368	250	1,914	-	82,532
Increase due to origination and acquisition	(65,870)	(3)	(32)	-	(65,905)
Repaid financial assets	41,797	29	849	-	42,675
Effects of the model change (risk parameters)	(5,086)	(353)	999	-	(4,440)
Total net gains and losses on impairment	**(960)**	**(5,251)**	**(6,027)**	**-**	**(12,238)**
Sold financial assets				-	-
Derecognized financial assets (but not due to sales)				-	
Decrease due to write-off					-
Modification effects					-
Other adjustments (foreign exchange effects)	80	5	16		101
Transfer to Stage 1	(3,986)	2,831	1,155	-	-
Transfer to Stage 2	262	(399)	136	-	(1)
Transfer to Stage 3	73	255	(328)	-	-
Impairment allowance at December 31, 2019	**(57,151)**	**(4,648)**	**(8,561)**	**-**	**(70,360)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Modified Assets

In order to address the credit risk, the Bank commonly elects to modify the contractual terms of repayment rather than foreclose the collaterals. Such modifications may entail extension of the repayment period and/or new terms of crediting.

When the contractual cash flows of a financial assets have been renegotiated and the new arrangement or the modification does not result in derecognition of the asset under IFRS 9, the Bank will recalculate the gross carrying value of the asset and recognize a gain or loss on the modification in the income statement.

By means of its internal bylaws and instruction manuals the Bank has established a framework for management of forborne receivables. The Bank's management continuously monitors the modified financial instruments in order to ensure that all the criteria are met and that future payments are likely to occur.

Restructuring (forbearance) means approving a single loan repayment concessions to a borrower, due to the borrower's financial difficulties, that would not otherwise be approved, regardless of whether the loan/receivables is matured in part or in full, whether it is securitized or not or whether it is in the status of default or not.

The Bank identifies restructured (forborne) loans at the time of their modification and classifies them as non-performing forborne (Stage 3) or performing forborne (Stage 2). In addition, the Bank has set up an appropriate framework for monitoring and reclassification of the forborne loans and receivables, including their cure, i.e., exit from the forborne status.

The tables below present the forborne loans for FY 2020 and the comparative period (FY 2019):

Forborne loans and receivables December 31, 2020

	Gross carrying value	Impairment allowance	Number of facilities
Corporate*	2,656,004	447,913	15
Retail	39,263	11,919	45
Total	**2,695,267**	**459,832**	**738**

Forborne loans and receivables at December 31, 2019

	Gross carrying value	Impairment allowance	Number of facilities
Corporate	67,537	20,665	10
Retail	809,086	533,466	353
Total	**876,623**	**554,131**	**363**

* Here the gross carrying value as of December 31, 2020 includes some account balance departures.

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage

During 2020 and 2019, the Bank developed internal models for customer credit rating. The tables below present credit risk exposure in 2020 according to the customer rating for the portfolio segments where the rating model was implemented. For loans and receivables where the rating model was not implemented, the credit risk exposure is presented per days past due and Stage. Total loans are presented separately per days past due, comparatively as of December 31, 2020 and 2019.

Loans due from banks, as of December 31, 2020	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	4,869,078	-	-	-	4,869,078
Up to 30 days past due	87,098	-	-	-	87,098
From 31 to 60 days past due	-	-	-	-	-
From 61 to 90 days past due	12	-	-	-	12
Non-performing	-	-	-	-	-
Not past due	-	-	7	-	7
Up to 30 days past due	-	-	-	-	-
From 31 to 60 days past due	-	-	-	-	-
From 61 to 90 days past due	-	-	-	-	-
Over 90 days past due	-	-	333,705	-	333,705
Gross carrying value	**4,956,188**	-	**333,712**	-	**5,289,900**
Impairment allowance	(320)	-	(333,712)	-	(334,032)
Net carrying value	**4,955,868**	-	**-**	-	**4,955,868**

Loans due from banks, as of December 31, 2019	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	6,285,461	-	-	-	6,285,461
Up to 30 days past due	57,869	-	-	-	57,869
From 31 to 60 days past due	-	-	-	-	-
From 61 to 90 days past due	-	-	-	-	-
Non-performing	9	-	366,075	-	366,084
Not past due	9	-	-	-	9
Up to 30 days past due	-	-	-	-	-
From 31 to 60 days past due	-	-	-	-	-
From 61 to 90 days past due	-	-	-	-	-
Over 90 days past due	-	-	366,075	-	366,075
Gross carrying value	**6,343,339**	**-**	**366,075**	**-**	**6,709,414**
Impairment allowance	**(29)**	**-**	**(366,075)**	**-**	**(366,104)**
Net carrying value	**6,343,310**	**-**	**-**	**-**	**6,343,310**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

Housing loans, as of December 31, 2020	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	10,784,552	151,429	-	23,891	10,959,872
Rating 2	3,144,139	30,246	-	7627	3,182,012
Rating 3	1,196,948	30,351	-	6,032	1,233,331
Rating 4	515,365	24,444	-	7593	547,402
Rating 5	253,252	6,410	-	5,465	265,127
Rating 6	399,482	784,137	-	2645	1,186,264
Rating 7	51,818	125,276	-	5137	182,231
Rating 8	-	481,255	-	12,985	494,240
Rating 9	-	418,049	-	18,132	436,181
Default	-	-	624,717	356,938	981,655
Without rating	2,108,738	758	-	-	2,109,496
Gross carrying value	**18,454,294**	**2,052,355**	**624,717**	**446,445**	**21,577,811**
Impairment allowance	(171,954)	(222,652)	(475,530)	(214,045)	(1,084,181)
Net carrying value	**18,282,340**	**1,829,703**	**149,187**	**232,400**	**20,493,630**

Housing loans, as of December 31, 2019	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	11,186,364	113,865	-	31,351	11,331,580
Rating 2	1,856,360	51,671	-	-	1,908,031
Rating 3	845,512	22,378	-	3,285	871,175
Rating 4	681,270	2,289	-	-	683,559
Rating 5	257,917	13,594	-	3,235	274,746
Rating 6	1,239,943	30,680	-	-	1,270,623
Rating 7	205,652	10,512	-	-	216,164
Rating 8	-	717,737	-	5,393	723,130
Rating 9	-	713,781	-	47,790	761,571
Default	-	-	625,958	422,406	1,048,364
Without rating	965,410	841	-	294	966,545
Gross carrying value	**17,238,428**	**1,677,348**	**625,958**	**513,754**	**20,055,488**
Impairment allowance	(39,560)	(79,072)	(398,783)	(159,928)	(677,343)
Net carrying value	**17,198,868**	**1,598,276**	**227,175**	**353,826**	**19,378,145**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

Cash loans, as of December 31, 2020	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	1,515,358	-	-	-	1,515,358
Rating 2	5,235,790	953	-	319	5,237,062
Rating 3	7,424,556	2,532	-	2,331	7,429,419
Rating 4	8,065,737	6,189	-	2,567	8,074,493
Rating 5	5,898,191	7,023	-	3,636	5,908,850
Rating 6	5,039,325	11,427	-	3,035	5,053,787
Rating 7	1,894,520	261,560	-	2,087	2,158,167
Rating 8	364,899	2,306,220	-	10,049	2,681,168
Rating 9	-	1,527,888	-	3,406	1,531,294
Default	-	-	2,344,544	116,044	2,460,588
Without rating	16,277,849	32,833	-	-	16,310,682
Gross carrying value	**51,716,225**	**4,156,625**	**2,344,544**	**143,474**	**58,360,868**
Impairment allowance	(558,025)	(638,954)	(1,525,933)	(83,467)	(2,806,379)
Net carrying value	**51,158,200**	**3,517,671**	**818,611**	**60,007**	**55,554,489**

Cash loans, as of December 31, 2019	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	1,375,659	-	-	-	1,375,659
Rating 2	4,668,441	501	-	108	4,669,050
Rating 3	5,617,425	4,674	-	455	5,622,554
Rating 4	5,380,089	7,197	-	4,609	5,391,895
Rating 5	4,025,255	30,745	-	2,259	4,058,259
Rating 6	3,221,040	26,660	-	4,725	3,252,425
Rating 7	1,403,329	11,475	-	2,541	1,417,345
Rating 8	1,735,722	305,936	-	9,452	2,051,110
Rating 9	-	988,233	-	4,903	993,136
Default	-	-	2,003,314	224,694	2,228,008
Without rating	16,194,481	41,843	-	-	16,236,324
Gross carrying value	**43,621,441**	**1,417,264**	**2,003,314**	**253,746**	**47,295,765**
Impairment allowance	(266,569)	(119,980)	(1,262,986)	(130,811)	(1,780,346)
Net carrying value	**43,354,872**	**1,297,284**	**740,328**	**122,935**	**45,515,419**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

Retail loans, not subject to rating*, as of December 31, 2020	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	2,394,353	127,460	-	35	2,521,848
Up to 30 days past due	52,607	65,084	-	15	117,706
From 31 to 60 days past due	1,570	33,893	-	-	35,463
From 61 to 90 days past due	470	20,011	-	27	20,508
Non-performing					-
Not past due	-	-	47,039	8	47,047
Up to 30 days past due	-	-	17,941	1	17,942
From 31 to 60 days past due	-	-	10,910	1	10,911
From 61 to 90 days past due	-	-	3,675	-	3,675
Over 90 days past due	-	-	303,961	150,388	454,349
Gross carrying value	**2,449,000**	**246,448**	**383,526**	**150,475**	**3,229,449**
Impairment allowance	(33,423)	(29,227)	(226,273)	(143,080)	(432,003)
Net carrying value	**2,415,577**	**217,221**	**157,253**	**7,395**	**2,797,446**

Retail loans, not subject to rating*, as of December 31, 2019	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	2,904,808	200,684	-	46	3,105,538
Up to 30 days past due	63,867	49,904	-	5	113,776
From 31 to 60 days past due	363	51,838	-	1	52,202
From 61 to 90 days past due	221	19,279	-	-	19,500
Non-performing	1,752	-	397,322	176,202	575,276
Not past due	1,624	-	21,132	21	22,777
Up to 30 days past due	1	-	8,176	-	8,177
From 31 to 60 days past due	79	-	4,732	143	4,954
From 61 to 90 days past due	48	-	5,243	2	5,293
Over 90 days past due	-	-	358,039	176,036	534,075
Gross carrying value	**2,971,011**	**321,705**	**397,322**	**176,254**	**3,866,292**
Impairment allowance	(23,791)	(17,438)	(246,064)	(150,783)	(438,076)
Net carrying value	**2,947,220**	**304,267**	**151,258**	**25,471**	**3,428,216**

***** The rating model was not applied to consumer loans, agriculture loans, authorized current account overdrafts and credit cards

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

Corporate loans, as of December 31, 2020	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	991,097	31,892	-	4	1,022,993
Rating 2	1,754,249	30,391	-	26	1,784,666
Rating 3	26,137,976	22,879	-	8	26,160,863
Rating 4	18,670,510	44,254	-	2	18,714,766
Rating 5	9,236,370	95,575	-	-	9,331,945
Rating 6	10,525,894	69,756	-	-	10,595,650
Rating 7	10,719,880	6,501	-	6,242	10,732,623
Rating 8	4,270,566	30,018	-	-	4,300,584
Rating 9	-	258,670	-	-	258,670
Default	5,723	-	1,018,676	634,545	1,658,944
Without rating	5,575,865	3,436,134	-	88	9,012,087
Gross carrying value	87,888,130	4,026,070	1,018,676	640,915	93,573,791
Impairment allowance	(625,340)	(459,865)	(835,545)	(505,451)	(2,426,201)
Net carrying value	87,262,790	3,566,205	183,131	135,464	91,147,590

Corporate loans, as of December 31, 2019	Stage 1 12-month ECL, cumulative	Stage 2 Lifetime ECL, cumulative	Stage 3 Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	407,132	-	-	1	407,133
Rating 2	1,237,483	-	-	23	1,237,506
Rating 3	19,553,439	20,203	-	2	19,573,644
Rating 4	9,718,395	29,834	-	-	9,748,229
Rating 5	6,940,428	62,572	-	-	7,003,000
Rating 6	11,263,716	104,468	-	-	11,368,184
Rating 7	6,182,538	10,993	-	-	6,193,531
Rating 8	11,935,162	50,021	-	1	11,985,184
Rating 9	206,880	911	-	-	207,791
Default	5,381	-	1,254,750	723,163	1,983,294
Without rating	5,435,801	8,341	-	141	5,444,283
Gross carrying value	**72,886,355**	**287,343**	**1,254,750**	**723,331**	**75,151,779**
Impairment allowance	(212,181)	(10,916)	(1,122,776)	(525,354)	(1,871,227)
Net carrying value	**72,674,174**	**276,427**	**131,974**	**197,977**	**73,280,552**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

Total loans	Gross carrying value at December 31, 2020	Impairment allowance at December 31, 2020	Gross carrying value at December 31, 2019	Impairment allowance at December 31, 2019
Not past due	174,278,219	(3,052,025)	144,456,634	(930,068)
Up to 30 days past due	2,507,918	(215,756)	2,765,408	(79,360)
From 31 to 60 days past due	394,139	(94,481)	529,799	(147,284)
From 61 to 90 days past due	415,435	(166,707)	233,666	(65,772)
From 91 to 180 days past due	297,515	(162,449)	395,886	(159,865)
Over 180 days past due	4,138,597	(3,391,380)	4,697,345	(3,750,747)
Total	**182,031,823**	**(7,082,798)**	**153,078,738**	**(5,133,096)**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Maximum Credit Risk Exposure

Exposure per industry and geographic concentration as of December 31, 2020:

	Vojvodina		Belgrade		Šumadija and Western Serbia		Southern and Eastern Serbia		Kosovo and Metohija		Foreign countries	
December 31, 2020	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**
Cash and balances held with the central bank	2,629,694	-	21,701,148	-	-	-	-	-	-	-	-	-
Pledged financial assets	-	-	1,177,302	-	-	-	-	-	-	-	-	-
Financial assets measured at FVtOCI	-	-	17,187,394	-	-	-	-	-	-	-	-	-
Retail segment loans	**31,015,011**	**1,498,879**	**19,558,898**	**935,778**	**18,323,698**	**1,024,091**	**10,228,922**	**508,390**	**51,520**	**7,823**	**13,905**	**1,206**
Housing loans	6,975,299	412,040	7,732,045	251,553	4,406,570	267,163	1,462,358	48,667	6,266	2,232	13,618	-
Consumer and cash loans	22,353,700	838,734	11,608,576	633,686	13,423,328	587,779	8,469,896	395,159	44,639	5,094	143	434
Transaction account loans and credit cards	521,761	112,907	186,549	46,392	267,444	74,730	188,254	42,692	534	251	26	685
Other receivables	1,164,258	135,198	31,728	4,147	226,356	94,419	108,414	21,872	81	246	118	87
Corporate segment loans	**3,936,263**	**101,470**	**11**	**538**	**526**	**-**	**3,936,263**	**101,470**	**11**	**538**	**526**	**-**
Industry sector A	5,511,005	346,999	594,086	131	253,442	4,212	8,189	1,219	-	-	-	-
Industry sectors B, C and E	16,733,041	522,224	4,294,853	25,622	9,310,132	178,887	915,411	88,067	1	504	-	-
Industry sector D	280,313	-	2,874,072	433	97	12	10	-	-	-	14	-
Industry sector F	1,530,569	2,161	1,460,535	39,318	537,087	6,452	849,319	271	-	-	-	-
Industry sector G	5,475,321	160,881	10,273,399	61,455	2,735,877	67,350	1,629,005	9,368	10	33	2	-
Industry sectors H, I and J	8,274,855	18,575	7,776,912	27,001	733,347	12,655	357,413	1,609	-	1	1	-
Industry sectors L, M and N	2,195,127	5,001	7,035,166	73,423	98,811	4,144	176,916	936	-	-	509	-
Loans and receivables due from banks and other financial institutions	**5,502**	**1,674**	**899,134**	**71**	**1,384**	**6**	**47**	**10**	**-**	**-**	**4,050,119**	**331,953**
Total on-balance sheet exposure	**73,650,445**	**2,556,394**	**94,832,899**	**1,163,232**	**31,993,875**	**1,297,809**	**14,165,232**	**609,870**	**51,531**	**8,361**	**4,064,550**	**333,159**
Credit commitments	2,071,335	-	3,710,772	1,408	1,909,050	-	280,162	-	-	-	104,980	-
Guarantees and sureties issued	8,575,191	9,392	16,765,813	4,760	4,834,329	4,246	1,881,676	3,381	1,434	-	1,463	206
Total off-balance sheet exposure	**10,646,526**	**9,392**	**20,476,585**	**6,168**	**6,743,379**	**4,246**	**2,161,838**	**3,381**	**1,434**	**-**	**106,443**	**206**
Total financial liabilities	**84,296,971**	**2,565,786**	**115,309,484**	**1,169,400**	**38,737,254**	**1,302,055**	**16,327,070**	**613,251**	**52,965**	**8,361**	**4,170,993**	**333,365**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Maximum Credit Risk Exposure (Continued)

Exposure per industry and geographic concentration as of December 31, 2019:

	Vojvodina		Belgrade		Šumadija and Western Serbia		Southern and Eastern Serbia		Kosovo and Metohija		Foreign countries	
December 31, 2019	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**	**Performing**	**Non-performing**
Cash and balances held with the central bank	5,814,433	-	25,190,015	-	-	-	-	-	-	-	-	-
Pledged financial assets	-	-	389,380	-	-	-	-	-	-	-	-	-
Financial assets measured at FVtOCI	-	-	11,328,714	-	-	-	-	-	-	-	-	-
Retail segment loans	**26,897,882**	**1,400,380**	**16,622,544**	**847,473**	**15,156,769**	**1,077,823**	**8,619,430**	**513,001**	**54,991**	**7,293**	**14,280**	**5,679**
Housing loans	6,544,240	429,202	7,199,286	242,524	3,919,501	311,420	1,321,954	58,901	8,131	2,250	14,012	4,067
Consumer and cash loans	18,308,266	736,037	9,166,717	549,095	10,626,474	577,281	6,920,542	362,823	45,759	4,545	-	434
Transaction account loans and credit cards	747,038	139,335	237,456	53,166	345,151	92,227	244,514	67,068	1,014	261	69	1,128
Other receivables	1,298,338	95,806	19,085	2,688	265,643	96,895	132,420	24,209	87	237	199	50
Corporate segment loans	**35,751,455**	**774,779**	**25,272,370**	**332,023**	**9,599,978**	**783,165**	**2,542,478**	**92,791**	**3**	**537**	**2,200**	**-**
Industry sector A	3,884,899	84,642	635,495	126	182,378	7,421	5,015	1,181	-	-	-	-
Industry sectors B, C and E	14,649,425	498,272	3,973,822	29,808	6,582,892	588,236	813,093	80,067	1	504	-	-
Industry sector D	228,354	-	197,232	427	80	-	13	-	-	-	-	-
Industry sector F	910,887	878	1,595,035	38,500	353,346	25,365	279,217	227	-	-	1,574	-
Industry sector G	5,083,980	164,744	8,014,223	113,216	1,882,064	135,342	1,217,827	8,755	-	32	-	-
Industry sectors H, I and J	8,709,500	21,047	6,461,110	80,538	539,784	14,131	93,554	1,748	2	1	1	-
Industry sectors L, M and N	2,284,410	5,196	4,395,453	69,408	59,434	12,670	133,759	813	-	-	625	-
Loans and receivables due from banks and other financial institutions	**238,711**	**1,999**	**1,717,704**	**2**	**352,826**	**6**	**34**	**10**	**-**	**-**	**4,034,054**	**364,068**
Total on-balance sheet exposure	**68,702,481**	**2,177,158**	**80,520,727**	**1,179,498**	**25,109,573**	**1,860,994**	**11,161,942**	**605,802**	**54,994**	**7,830**	**4,050,534**	**369,747**
Credit commitments	2,409,144	-	4,329,328	1,545	1,436,672	-	294,054	-	-	-	409,596	-
Guarantees and sureties issued	5,215,763	10,135	13,661,981	4,159	3,591,005	5,276	1,518,306	3,537	1,356	15	119,259	-
Total off-balance sheet exposure	**7,624,907**	**10,135**	**17,991,309**	**5,704**	**5,027,677**	**5,276**	**1,812,360**	**3,537**	**1,356**	**15**	**528,855**	**-**
Total financial liabilities	**76,327,388**	**2,187,293**	**98,512,036**	**1,185,202**	**30,137,250**	**1,866,270**	**12,974,302**	**609,339**	**56,350**	**7,845**	**4,579,389**	**369,747**

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Maximum Credit Risk Exposure (Continued)

Industry sector A	Electricity, gas, steam and air conditioning supply
Industry sectors B, C and E	Construction industry
Industry sector D	Agriculture, forestry and fisheries
Industry sector F	Mining and quarrying, manufacturing and processing industry, water supply, waste water management, waste disposal control and similar activities
Industry sector G	Wholesale and retail trade and repair of motor vehicles and motorcycles
Industry sectors H, I and J	Transport and storage, hotel and restaurant services, information and communications
Industry sectors L, M and N	Real estate, professional, scientific and technical activities, arts, entertainment and leisure

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Collaterals

A security instrument (collateral) is defined as property or assets offered to securitize repayment of a loan or settlement of another liability. The primary source of collection of receivables for the Bank is the borrower's operating cash flow, while the collateral represents a secondary source of loan recovery.

The Bank's Rulebook in Collaterals defines the volume of acceptable collaterals per all loans and receivables and term for their acceptance depending on their value, as well as other security instruments the real value of which cannot be determined yet the Bank obtains those in order to mitigate the assumed credit risk.

The following are acceptable collateral types:

- Monetary deposits and securities – pledge liens instituted over cash deposits and securities;
- Mortgages instituted on residential (apartments and houses) and non-residential (commercial property, business premises, land and other non-residential property) real estate;
- Pledge liens instituted over movable assets (inventories, goods, vehicles, equipment, machinery, agro produce, gold, precious metals and precious stones, works of art) and over receivables; and
- Guarantees and sureties – bank guarantees (issued by domestic and foreign banks) acceptable to the Bank and co-sureties (guarantor).

LTV ratio represents the amount of a loan or a receivable relative to the appraised market value of the real estate received as collateral securing the loan. The Bank's mortgage loans broken down per LTV ratio value for the retail and corporate loan portfolios as of December 31, 2020 and December 31, 2019 are presented in the tables below.

Due to the characteristics and the risk level of the portfolio, the retail segment loans allocated to Stage 3, i.e., Stage 3 receivables secured with mortgages due form retail customers, are presented separately as of December 31, 2020 and December 31, 2019. All the figures are stated in RSD '000.

	December 31, 2020		December 31, 2019	
LTV ratio - Retail loans	**Receivables secured with mortgages assigned over property**	**Impairment allowance of the receivables secured with mortgages assigned over property**	**Receivables secured with mortgages assigned over property**	**Impairment allowance of the receivables secured with mortgages assigned over property**
Below 50%	5,285,854	271,354	5,122,957	163,733
From 50% to 70%	7,987,386	241,702	7,429,329	112,214
From 70% to 90%	7,255,582	192,760	6,423,774	96,669
From 90% to 100%	254,624	55,152	254,973	45,424
From 100% to 120%	250,886	54,145	285,593	49,795
From120% to 150%	202,121	74,464	167,668	50,861
Over 150%	192,204	107,632	195,790	81,324
Total	**21,428,657**	**997,209**	**19,880,084**	**600,020**
Average LTV		63.28%		62.88%

	December 31, 2020		December 31, 2019	
LTV ratio - Retail loans, Stage 3 loans	**Receivables secured with mortgages assigned over property**	**Impairment allowance of the receivables secured with mortgages assigned over property**	**Receivables secured with mortgages assigned over property**	**Impairment allowance of the receivables secured with mortgages assigned over property**
Below 50%	359,128	183,794	381,975	130,518
From 50% to 70%	147,675	87,487	153,433	69,172
From 70% to 90%	105,747	70,432	111,979	61,977
From 90% to 100%	60,055	49,380	62,774	43,465
From 100% to 120%	55,912	48,939	67,167	46,332
From120% to 150%	57,036	56,362	69,697	48,738
Over 150%	108,971	98,534	110,334	80,067
Total	**894,524**	**594,928**	**957,359**	**480,269**
Average LTV		77.79%		77.91%

46. RISK MANAGEMENT (Continued)

46.4. Credit Risk (Continued)

Collaterals (Continued)

	December 31, 2020		December 31, 2019	
LTV ratio – Corporate loans	**Receivables secured with mortgages assigned over property**	**Impairment allowance of the receivables secured with mortgages assigned over property**	**Receivables secured with mortgages assigned over property**	**Impairment allowance of the receivables secured with mortgages assigned over property**
Below 50%	8,762,838	613,611	5,725,729	401,238
From 50% to 70%	2,738,713	35,239	2,040,004	19,351
From 70% to 90%	1,968,656	25,362	1,262,797	42,251
From 90% to 100%	4,945,356	79,401	3,703,170	88,611
From 100% to 120%	1,952,837	44,052	1,598,662	37,040
From120% to 150%	2,397,331	317,251	7,967,210	321,387
Over 150%	14,832,668	422,420	6,430,240	444,476
Total	**37,598,400**	**1,537,337**	**28,727,812**	**1,354,354**
Average LTV		182.97%		700.19%

In accordance with the effective regulations and the Bank's internal bylaws, the Bank is required to obtain timely appraisals of the collaterals securing the extended loans.

Collaterals held by the Bank as of December 31, 2020 and December 31, 2019 per type, number and appraised value are presented in the table below:

Collateral type - 2020	Number of collaterals held by the Bank	Appraised collateral value
Mortgage liens	11,773	113,693,453
Deposits	306	2,088,725
Pledge liens	750	53,762,848
Guarantees	1,649	13,168,981

Collateral type - 2019	Number of collaterals held by the Bank	Appraised collateral value
Mortgage liens	12,085	93,322,722
Deposits	219	1,022,760
Pledge liens	410	2,393,561
Guarantees	802	43,552,324

The aggregate fair value of the collaterals foreclosed is presented in the table below:

Year	2020	2019
Fair value	104,468	683,370

Write-Off of Receivables

The Bank will reduce the gross carrying value of a financial asset when it no longer realistically expects either partial or full recovery of the financial asset. Write-off is an event of derecognition of a financial asset.

Additionally, the Bank makes the accounting write-off and transfers to the off-balance sheet items financial assets with low likelihood of recoverability.

In 2020, the Bank wrote off and transferred to the off-balance sheet asset receivables totaling RSD 1,035,380 thousand (2019: RSD 1,631,837 thousand).

46. RISK MANAGEMENT (Continued)

46.5. Operational Risk

Operational risk is the risk from potential adverse effects on the Bank's financial result and capital due to (intentional or accidental) omissions or errors in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to unforeseen external events. Operational risk also includes legal risk.

The process of operational risk management in the Bank is on the following 4 pillars:

a) collection of information on the operational risk events,
b) operational risk identification and assessment,
c) scenario analysis, and
d) key risk indicators

The main objective of operational risk management in the Bank is to ensure that the level of operational risk exposure complies with the Bank's risk management strategy and policies.

Collection of information on the operational risk events

The Bank has a system in place for reporting from each of its organizational units, where reporting officers collect data on operational risk events occurred. Such events are reported through the internally developed operational risk database. There are limits set up for entry of the events into the operational risk database as well as for additional measures to address and overcome operational risks the Bank is exposed to. The Bank performs quarterly analyses of the operational risk events reported, in order to improve and intensify the control system for elimination/reduction of losses arising from the operational risk events.

Operational risk identification and assessment

Operational risk identification and assessment are performed at least annually and entail a procedure where the Bank's organizational units determine their participation in individual predefined processes in the Bank and identify and assess operational risks they are exposed to.

The main objective of the operational risk identification and assessment is to identify the operational risks the Bank is exposed to and define additional measures for minimization of the Bank's operational risk exposure.

Scenario Analysis

Scenario analysis is performed once a year. The main purpose of the scenario analysis is to determine the Bank's operational risk exposure based on the predefined scenarios, i.e., to determine the probability and potential financial effects of the occurrence of the said predefined scenarios. Scenario analysis is intended to encompass operational risks that are less likely to occur but produce greater potential negative financial effects. The analysis is also performed for definition of additional measures for addressing and overcoming operational risks.

Key Risk Indicators

The Bank has developed a system of the key risk indicators used for monitoring of the Bank's exposure to individual operational risks, with defined limits for such risks. The set up limits represent the tolerance thresholds for acceptance of operational risks. In case the set limits are exceeded, additional measures for addressing and overcoming of operational risks are defined.

Business Continuity Plan (BCP)

In order to ensure the continuity of operation, the Bank's Board of Directors has adopted the Rulebook on Business Continuity with appendices (Impact Scale, Emergency Scale, List of Critical Processes, Members of the Crisis Management Committee and Process Owners and BCP Coordinators) and 27 separate Business Continuity Plans (BCPs) for the Bank's critical organizational units. Moreover, the Bank's Board of Directors has adopted the Instruction for Crisis Management and Communication during Crisis.

46. RISK MANAGEMENT (Continued)

46.5. Operational Risk (Continued)

Business Continuity Plan (BCP)

The Bank manages continuity of business operations based on the business impact analysis (BIA) and risk assessment.

Its purpose is to minimize operational, financial, legal, reputational and other material consequences brought about by interruption of operations as well as to ensure functioning of the critical business functions and/or their restoration to use within predefined timelines. BCP allows for normal course of operations to be established in a reasonable time frame (recovery time objective - RTO), in the instances of significant unanticipated partial or full stoppage in business operations.

The Bank tests its BCP on a regular basis, at least annually.

Externalization (Outsourcing) Risk

The Bank manages externalization risk via assessments and established control mechanisms before executing contracts with third parties or suppliers of services and undertakes the necessary protective measures against the adverse effects of externalization risk on its operation and reputation.

New Product Introduction Risk

The Bank actively manages new product introduction inasmuch as its overall risk management system includes and actively manages all risks arising from the new product introduction.

Information System Risk

The Bank has developed a process of information system risk management which includes risk identification measurement, assessment, mitigation, monitoring and control. The Bank manages the information system risk in such a manner that it allows for unhindered managing safety of this system, its functionality and continuity of the Bank's operations.

46.6. Country Risk

Country risk relates to the country of origin of the Bank’s counterparty, i.e., it represents a possibility of negative effects on the Bank’s financial result and capital due to its inability to collect receivables from abroad caused by political, economic and social conditions in the borrower’s country of origin.

The Bank manages the country risk by analyzing the borrowers’ countries of origin, monitoring the credit ratings of these countries, setting up country risk exposure limits for certain countries and monitoring its exposures to certain countries and compliance with the limits set.

46.7. Counterparty Risk

For the purpose of counterparty risk management, the Bank performs counterparty analyses, sets up limits on counterparty exposures per type and maturity of products/arrangements. Counterparty exposures and compliance with the set up limits are monitored on a daily basis.

46.8. Investment Risk

The Bank's investment risks are risks associated with the Bank’s equity investments in other legal entities and its own capital expenditures, which are made and monitored in accordance with the regulations of the National Bank of Serbia. The Bank has an appropriate policy and the relating bylaws in place to govern the investment risk management process. The risk is mitigated by means of an adequate internal limit system.

46. RISK MANAGEMENT (Continued)

46.9. Concentration Risk

In accordance with the Bank's adopted procedures, the Risk Management Division monitors the limits and concentrations of the Bank's exposures to certain single legal entities or groups of related entities and entities related to the Bank, and ensures that such exposures are maintained within the limits defined by NBS.

The Bank's exposure to a single entity or a group of related entities may not exceed 25% of the Bank's capital. The sum of the large Bank's exposures cannot exceed 400% of its capital.

As of December 31, 2020, the Bank did not exceed any of the prescribed limits.

47. CAPITAL MANAGEMENT

The capital management framework is intended for provision of sufficient capital to support the Bank in basic risk management and achievement of regulatory objectives and management's objectives regarding the credit rating. Capital management refers to the definition of the optimum capital the Bank needs to maintain taking into account the existing quality of assets and future crediting strategies.

The Bank's Capital Management Plan defines and ensures the following:

- Effective capital planning taking into account the prescribed capital adequacy, risk profile and the Bank; business objectives;
- Manner of achieving and maintaining adequate regulatory and internally available capital and capital adequacy ratios in order to secure feasible operations of the Bank in the event of unexpected losses and avoid exceeding regulatory limits.

As the Bank's regulator, the National Bank of Serbia defines and supervises compliance with the regulations on the Bank's regulatory capital and capital adequacy. The Bank reports on the capital adequacy to the National Bank of Serbia on a quarterly basis. The Bank monitors the capital adequacy ratios on a monthly basis.

In accordance with Basel III Standards, the Bank is required to calculate the following ratios:

- the common equity Tier 1 capital ratio, which represents the Bank's common equity capital relative to its total risk-weighted assets, expressed as a percentage;
- the core Tier 1 capital adequacy ratio, which represents the Bank's core (Tier 1) capital relative to its total risk-weighted assets, expressed as a percentage; and
- the total capital adequacy ratio, which represents the Bank's total capital relative to its total risk-weighted assets, expressed as a percentage.

The Bank is required to maintain its capital adequacy ratios listed above at the following minimum prescribed levels:

- the common equity Tier 1 capital ratio (CET 1 ratio) minimum of 4.5%;
- the core capital adequacy ratio (T1 ratio) minimum of 6%; and
- the total capital adequacy ratio (CAR) minimum of 8%.

The Bank is also required to calculate and maintain the capital buffers in accordance with the regulations of NBS. Capital buffers represent additional common equity share capital the Bank is obligated to maintain above the prescribed regulatory minimum, i.e., the capital that cannot be used for maintenance of the minimum prescribed capital adequacy ratios.

The following capital buffers are to be calculated and maintained in accordance with NBS regulations:

- capital conservation buffer,
- countercyclical capital buffer,
- capital buffer for a systemically important bank, and
- systemic risk buffer.

The Bank has been designated as a systemically important bank by the national Bank of Serbia.

47. CAPITAL MANAGEMENT (Continued)

The Bank is required to maintain the minimum amount of capital in RSD equivalent to EUR 10 million at the official middle exchange rate. The Bank is required to maintain at all times its capital at a level required for covering all the risks to which it is exposed or may be exposed in its operations.

The Bank's regulatory capital is the sum of the core (Tier 1) capital and supplementary (Tier 2) capital, where the core (Tier 1) capital is comprised of the common equity Tier 1 capital (CET 1) and additional Tier 1 capital.

Elements of the Bank's regulatory capital and its capital adequacy ratio are provided in the table below:

REGULATORY CAPITAL	December 31, 2020 Basel III	December 31, 2019 Basel III
Core capital		
Face value of shares paid in except for preferred cumulative shares	31,607,808	31,607,808
Share premium	2,563,562	2,563,562
Current year's profit qualifying for inclusion in the core capital	-	5,982,870
Prior years' accumulated losses	(2,515,202)	(8,498,072)
Current year's loss	(1,179,455)	-
Intangible assets	(641,088)	(635,666)
Deferred tax assets contingent on the future profitability except for those arising from temporary differences, net of the relating deferred tax liabilities	(87,543)	-
Revaluation reserves and other unrealized gains	208,048	230,261
Unrealized losses on securities at FVtOCI	(19,053)	(44,052)
Regulatory adjustment of the common equity Tier 1 capital	(53,242)	(27,279)
Direct or indirect investments in banks and other financial sector entities where the Bank has significant holdings	-	-
Gross receivables from a private individual debtor per approved consumer loans, cash loans and other loans where the credit indebtedness of the debtor prior to loan approval exceeded the percentage set in line with the Decision on Classification or will exceed it due to loan approval	(19,488)	(14,777)
Gross receivables from a private individual debtor (except for farmers and sole traders–entrepreneurs) per approved consumer loans, cash loans and other loans, which per contractual maturity criterion qualify for common equity capital deductibles	(39,704)	(47,034)
Common equity Tier 1 capital	**29,824,643**	**31,117,621**
Additional Tier 1 capital	**-**	**-**
Core capital – Tier 1	**29,824,643**	**31,117,621**
Qualifying subordinated liabilities	1,175,802	-
Supplementary Tier 2 capital	**1,175,802**	**-**
Total regulatory capital at December 31	**31,000,445**	**31,117,621**
Risk-weighted assets		
Risk-weighted credit risk exposures	148,570,086	126,394,642
Risk-weighted foreign exchange risk exposures	728,477	2,108,161
Risk-weighted market (price) risk exposures	1,056,275	244,588
Risk-weighted operational risk exposures	20,787,800	20,295,300
Common Equity Tier 1 capital ratio (CET1 ratio)	**17.43%**	**20.88%**
Tier 1 capital ratio (T1 ratio)	**17.43%**	**20.88%**
Total capital adequacy ratio	**18.11%**	**20.88%**
Total capital buffer requirements (%)	**5.19%**	**5.21%**

47. CAPITAL MANAGEMENT (Continued)

As of December 31, 2020 and December 31, 2019, the Bank achieved the following adequacy indicators in compliance with the regulations of the National Bank of Serbia, as provided in the table below:

	Prescribed	December 31, 2020	December 31, 2019
Amount of the Bank's capital	EUR 10 million	263.654	264.622
Total capital adequacy ratio	Minimum 8 %	18.11%	20.88%
Core capital Tier 1 ratio	Minimum 6%	17.43%	20.88%
Common equity Tier 1 capital ratio	Minimum 4.5%	17.43%	20.88%
Concentration risk ratio	Maximum 50%	18.10%	22.75%
The sum of the Bank's investments	Maximum 60%	30.74%	31.20%
Investments in non-FSI entities	Maximum 10%	0.02%	0.02%
Exposure to a single entity/a group of related entities	Maximum 25%	24.12%	22.27%
Sum of all large Bank's exposures	Maximum 400%	95.89%	69.09%
Liquidity ratios at December 31			
- quick liquidity ratio	Minimum 0.5	1.37	1.37
- liquidity ratio	Minimum 0.8	1.51	1.52
Liquidity coverage ratio	Minimum 100%	130.62%	136.01%
Foreign exchange risk ratio	Maximum 20%	2.35%	6.77%

The Bank monitors and controls the above listed adequacy indicators prescribed by NBS on an ongoing basis. In 2020, as well as in 2019, the Bank was in full compliance with the prescribed values of adequacy/performance indicators.

48. FAIR VALUES OF THE FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is calculated based on the market information available as of the reporting date using valuation models.

Methods, Assumptions and Valuation Techniques Used in Determining Fair Value

Given the fact that the market of the Republic of Serbia is underdeveloped, in assessing the fair value of the financial instruments the Bank used market and income approaches, i.e. information on similar financial instruments available on the market, such as the prevailing interest rate, maturity and sector classification.

The Bank uses the following hierarchy upon determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for identical assets or liabilities (unadjusted);
Level 2: inputs observable for a given asset or liability either directly or indirectly that make use of information on the similar financial instruments present in active markets, quoted prices for identical or similar assets that are inactive or other market information from which the value of financial instrument can be derived (e.g. interest rates and yield curves observable in the usual quoted intervals); and
Level 3: unobservable inputs for financial assets and liabilities used unless relevant observable inputs are available; the Bank uses mark-to-model approach which deploys other than market information derived based on a theoretical model adequate for determining the value of financial instruments.

In assessing the fair value of its financial instruments, the Bank used Level 2 inputs.

48. FAIR VALUES OF THE FINANCIAL INSTRUMENTS (Continued)

Financial Instruments Measured at Fair Value

Financial assets available for sale are measured at fair value based on the available market inputs, i.e., using quoted market prices at the reporting date. If no such information is available, other valuation techniques are used to arrive at the fair value of these instruments.

Upon assessing the fair value of the Treasury bills and Government bonds, the Bank used valuation techniques that it believed were adequate in the circumstances and for which there were sufficient inputs available for fair value measurement. The Bank made maximum use of the relevant observable inputs, minimizing the use of unobservable ones. The Bank elected to apply the combined market and income approaches and based its fair value assessment on the Level 2 inputs. The fair values were determined based on:

- prices available for RSD and EUR-denominated securities, i.e., the Bank used prices published by Bloomberg as of December 31, 2020, based on which a RSD zero coupon curve was generated for cash flow discounting purposes; the curve values are stored within the Kondor+ front office system; and
- prices obtained for specific maturities.

Fair value of currency swaps is calculated based on the discounting of the expected future cash flows. The Bank uses market-prevailing interest rates for discounting the cash flows of financial instruments with the same remaining maturities.

Financial Instruments with Far Values Approximate to their Carrying Values

For highly liquid financial assets and liabilities with short-term maturities (up to a year) it is assumed that their carrying values approximate their fair values. This assumption is also used for demand deposits, savings deposits and financial assets and liabilities with market-adjusted prices (subject to repricing, products at variable interest rates).

Financial Instruments at Fixed Interest Rates

Far value of long-term financial assets and liabilities at fixed interest rates carried at amortized cost is assessed by comparing the market interest rates upon initial recognition to the current interest rates prevailing on the market for financial instruments with similar characteristics. The assessed fair values of deposits are based on the cash flows discounted using the interest rate prevailing on the money market for financial instruments with similar credit risk characteristics and maturities.

The following tables provides the fair values of the financial instruments recognized at fair value in the Bank's financial statements:

	December 31, 2019				December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Receivables under derivatives	-	29,921	-	29,921	-	9,452	-	9,452
Securities	**-**	**17,228,522**	**-**	**17,228,522**	**-**	**13,581,962**	**-**	**13,581,962**
Securities at FVtPL	**-**	7,949,969	**-**	7,949,969	**-**	2,205,671	**-**	2,205,671
Securities at FVtOCI	**-**	9,278,553	**-**	9,278,553	**-**	11,376,291	**-**	11,376,291
Financial liabilities								
Liabilities under derivatives	-	160,724	-	160,724	-	45,490	-	45,490

In fair value assessment of the instruments that are measured at other than fair values but whose fair values are disclosed, whereby the fair values depart from the carrying value of instruments, the Bank used as inputs official and easily verifiable data.

48. FAIR VALUES OF THE FINANCIAL INSTRUMENTS (Continued)

Financial Instruments at Fixed Interest Rates (Continued)

The Bank obtained the inputs, i.e., data on the prevailing interest rates applicable to the contracts with similar characteristics, from the official website of the National Bank of Serbia, using:

- interest rates applied by banks to the retail/non-FSI loans per currency – newly approved loans as of December 31, 2020, and the most recent market data – as inputs for assessment of fair values of loans and receivables due from customers; the Bank classified such information as Level 2 inputs;
- interest rates applied by banks to the retail/non-FSI deposits, per currency – newly received deposits as of December 31, 2020, and the most recent market data – as inputs for assessment of fair values of deposits and other liabilities to form customers; the Bank classified such information as Level 2 inputs.

In both cases where the Bank determined departures from the fair values, the market approach was applied.

The following tables provide comparison of the carrying values and fair values of the financial instruments not carried at fair value. Non-financial assets and liabilities are not included:

	December 31, 2020				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying value**
Cash and balances held with the central bank	-	33,251,589	-	33,251,589	33,251,589
Pledged financial assets	-	1,494,796	-	1,494,796	1,494,796
Loans and receivables due from banks and other financial institutions	-	-	4,955,868	4,955,868	4,955,868
Loans and receivables due from customers			170,048,467	170,048,467	169,993,155
Other assets	-	-	871,813	871,813	871,813
	-	**34,746,385**	**175,876,148**	**210,622,533**	**210,567,221**
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	49,710,118	49,710,118	49,710,118
Deposits and other liabilities due to customers			153,104,371	153,104,371	153,111,844
Other liabilities	-	-	1,651,698	1,651,698	1,651,698
	-	**-**	**204,466,187**	**204,466,187**	**204,473,660**

	December 31, 2019				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying value**
Cash and balances held with the central bank	-	40,303,963	-	40,303,963	40,303,963
Pledged financial assets	-	621,223	-	621,223	621,223
Loans and receivables due from banks and other financial institutions	-	-	6,343,310	6,343,310	6,343,310
Loans and receivables due from customers	-	-	141,635,055	141,635,055	141,602,332
Other assets	-	-	1,066,590	1,066,590	1,066,590
	-	**40,925,186**	**149,044,955**	**189,970,141**	**189,937,418**
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	42,443,116	42,443,116	42,443,116
Deposits and other liabilities due to customers	-	-	136,674,089	136,674,089	136,668,674
Other liabilities	-	-	1,598,977	1,598,977	1,598,977
	-	**-**	**180,716,182**	**180,716,182**	**180,710,767**

49. RECONCILIATION OF OUTSTANDING BALANCES RECEIVABLE AND PAYABLE

In accordance with Article 22 of the Law on Accounting (Official Gazette of RS no. 73/2019), the Bank reconciled its balances of receivables and payables with its legal entity customers and creditors as of October 31, 2020. The aggregate balances of receivables and payables for which balance confirmations were requested amounted to RSD 318,245,553 thousand. The amount of reconciled receivables and liabilities represents 99.97% of the total aggregate balances receivable and payable for which confirmation requests were responded to by the counterparties and 76.69% of the total aggregate balances receivable and payable for which confirmation was requested. The total unreconciled receivables and liabilities amounted to RSD 60,189 thousand.

		RSD '000
	Receivables	**Liabilities**
Number of unreconciled items	95	53
Total number of items subject to the balance reconciliation procedure	6,390	6,390
Percentage of unreconciled items (number)	1.49%	0.83%
Amount of unreconciled items	59,539	651
Total amount of items subject to the balance reconciliation procedure	148,170,395	95,969,517
Percentage of unreconciled items (amount)	0.04%	0.00%

50. EVENTS AFTER THE REPORTING PERIOD

At its session held on January 26, 2021, the Assembly of Vojvođanska Banka a.d., Novi Sad adopted the Decision on Acceptance of Merger with OTP banka Srbija a.d., Beograd as of April 30, 2021.

The effective merger accounting date shall be December 31, 2020. As of the merger registration date (with the Serbian Business Registers Agency) Vojvođanska banka a.d., Novi Sad will become a legal successor of OTP banka Srbija a.d., Beograd.

51. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia for major currencies as determined at the interbank foreign exchange market and used in the translation of the statement of financial position components denominated in foreign currencies into dinars (RSD) as of the reporting date were as follows:

		RSD
Currency	**Official middle exchange rate at December 31, 2020**	**Official middle exchange rate at December 31, 2019**
USD	95.6637	104.9186
CHF	108.4388	108.4004
EUR	117.5802	117.5928

Novi Sad, March 16, 2020

Milan Kojić
Member of the Executive Board;
Preparer of the Financial Statements

Predrag Vasić
Chairman of the Executive Board

vojvođanskabanka
otp group

Annual Report 2020

CONTENT

1. OTP Group

OTP Group is among the European banking groups that boasts one of the best capital and liquidity positions and is always able to provide conditions for stable operations and growth. The profitability of operations is a key precondition for continued growth and sustained renewal. The banking group is present in 11 countries, including Serbia, with over 20 million clients and more than 36,000 employees. Two integration processes were completed in 2020, in Bulgaria and in Montenegro.

In 2019, OTP Group achieved a record high consolidated profit of 1.2 billion euros, while the third quarter of 2020 the Group concluded with a consolidated profit of 515 million euros after tax. The parent bank and all subsidiary banks operated profitably within the Group and participate with 50% in the total profit of the Group, with increased market share in all key segments in Hungary and Serbia. Consolidated adjusted profit in the first 9 months covered almost 637 million euros, while adjusted return on equity (ROE) for that period increased to 13.2%.

OTP Group is present in Serbia through operations of Vojvodjanska banka and OTP banka Serbia, currently under the integration process that will last by May 2021, which will result in the creation of one of the leading financial institutions in Serbia in terms of assets, number of branches and the size of the loan and deposit portfolio.

OTP Group is a pioneer in digitalization and has been proactive for 25 years in the field of digital transformation of its operations and implementation of new technologies in the financial market.

The strategic orientation to innovations has opened the possibility of working with almost 900 startup companies with 30 pilot projects, while the fourth OTP Startup Partnership Program is underway. This is the most comprehensive innovation program of the Group so far, because all members of the group, including Vojvodjanska banka and OTP banka Serbia, are looking for startup partners who support their business goals.

The predecessor of OTP Bank, National Savings Bank was established in 1949 as a nation-wide, state-owned, banking entity providing retail deposits and loans. In the ensuing years, its activities and the scope of its authority gradually widened. In 1990, the National Savings Bank became a public company with a share capital of HUF 23 billion. Its name was changed to National Savings and Commercial Bank. Subsequently, non-banking activities were separated from the bank, along with their supporting organizational units. OTP Bank privatization began in 1995. Currently the bank is characterized by dispersed ownership by mostly private and institutional (financial) investors.

OTP Bank started its international expansion targeting countries in CEE region, which offer great economic growth potentials similar to Hungary. OTP Bank has completed several successful acquisitions in the past years, becoming a key player in the region. OTP Group currently operates in Albania (Banka OTP Albania), Bulgaria (DSK Bank), Croatia (OTP banka Hrvatska), Romania (OTP Bank Romania), Serbia (Vojvodjanska banka, OTP banka Srbija), Slovenia (SKB Banka), Ukraine (CJSC OTP Bank), Russia (OAO OTP Bank), Moldova (Mobiasbanca) and Montenegro (Crnogorska komercijalna banka) via its subsidiaries. The banking group holds market leader or near market leader position in Bulgaria, Hungary, Montenegro and Serbia.

The strategic goal of OTP Group is to become the most successful universal banking group in Central and Eastern Europe. The banking group strives to evolve constantly to provide unique, convenient and modern services to both retail and corporate customers that are easier and faster to access and meet the challenges of the digital age and the expectations of its customers.

2. Introduction by the President of the Executive Board

Predrag Vasić
President of the Executive Board

Dear Shareholder,

Vojvođanska banka has been successfully operating in Serbia over 150 years and is one of the most famous domestic brands in the country. It is among the ten largest banks in terms of assets, and with 1,786 employees, a wide branch network consisting of 122 branches and 211 ATMs at major locations throughout Serbia, it is a universal type of bank operating through five regional business centres. With a capital adequacy ratio well above the regulatory threshold, the Bank is highly capitalized and liquid and is among the best transactional banks on the market.

Current Vojvođanska banka is proud of its past rich history. In the period 2005-2006, OTP bank Hungary acquired Niška banka, Zepter banka and Kulska banka. In 2007, OTP banka Srbija a.d. Novi Sad was officially formed by merger of these three Serbian banks. Later on, in 2017 OTP banka Srbija a.d. Novi Sad acquired Vojvođanska banka a.d. Novi Sad, thus followed by its merger changed its name to Vojvođanska banka a.d. Novi Sad. In autumn of the same year, parent OTP Group acquired 100% ownership over bank *Societe Generale Srbija*, as well as over companies *Societe Generale Osiguranje* and *Sogelease*, which continued operations as OTP banka Srbija a.d. Beograd, *OTP Osiguranje ADO Beograd* and *OTP Leasing Srbija doo.* Accordingly, new integration process has been launched between Vojvođanska banka a.d. Novi Sad and OTP banka Srbija a.d. Beograd, which is envisaged to last until May 2021, with the aim of creating the leading banking institution on the Serbian market by asset size, number of branches and size of credit and deposit portfolio.
We have named the new integration process after the brightest star in the sky, SIRIUS, a two-star binary stellar system.

We can say that 2020 was especially challenging for us. We faced a global pandemic that highly affected the manner of organising work and led to reviewing set goals, whereby at all times we took care of the health and safety of our employees and clients who visited our branches. We succeeded in responding to all regulatory requirements of the National Bank of Serbia aiming to facilitate settlement of liabilities of debtors who were facing difficulties due to the COVID-19 pandemic, including the first and second moratorium, as well as introduction of facilities with specially prescribed conditions, taking into account the impact of the pandemic, both on citizens and the economy. We also enabled disbursement of pensions in the course of the emergency state during certain time only for the segment of pensioners, while we referred all clients to use electronic banking and appealed not to come to branches unnecessarily, but to use all advantages of ATMs, electronic and mobile applications, activation of which we have enabled completely online.

With extraordinary efforts we have invested in achieving the set business goals and providing quality service to our clients in difficult circumstances; we have remained focused on the complex integration process and the challenges ahead. We have managed to improve the costumer experience, provided stronger support to the economy, development projects, and facilitated access to financing of the micro and SME segment with the use of the guarantee scheme of the Ministry of Finance.

Vojvođanska banka ended 2020 as eighth by size on the Serbian market and fourth by branch network size in the country, with more than 800,000 clients. In particular, the success I wish

to single out is an increase in market share in key business segments, which for cash loans stands at 10.4%, and for corporate loans 6.2%. This gives us grounds for achieving even greater growth, in all fields in the years to come, thus contributing to the greater strength of our parent group.

Throughout 2020, Vojvođanska banka operated as an active and responsible member of the wider community. We implemented significant projects in the area of corporate responsibility, achieving successful cooperation with numerous civil organizations as well as state institutions. Priorities in the segment of corporate responsibility were primarily focused on the health sector, local self-government and other important parts of society, where we mitigated the consequences of the pandemic through numerous goods and monetary donations.

We remained a loyal partner to the Olympic Committee of Serbia, with which, due to postponing the Olympic Games for 2021, we presented a support campaign entitled "Circle of Support". It is a project that was created in the midst of the pandemic, during the day when the emergency state was declared in the country. The need for support was then greater than ever before, which resulted in the campaign with messages from Serbia's best athletes who encouraged each other, but the entire community as well, emphasizing the need for unity and solidarity. This is how the "circle of support" was created, which is recognized at the level of the entire Southeast Europe. This campaign was declared the best sports sponsorship project in Serbia in 2020 in the selection of the regional organization SPORTO.

We have a great responsibility to complete the current integration with a continuous growth of operations. We have ambitious plans for the coming period and are counting on the support of our employees, partners and OTP Group. As in the previous period, we base our further success on teamwork, mutual trust and respect.

Sincerely yours,

Predrag Vasić
President of the Executive Board

3. Vojvođanska Banka a.d. Novi Sad

About the Bank

OTP banka Srbija a.d., Novi Sad was officially formed on May 21, 2007 by merging three Serbian banks. On this date, the process of legal and operational collection of banks and the creation of a stable banking institution - OTP banka Srbija a.d., Novi Sad. OTP Bank from Budapest signed a contract for the purchase of Niška banka a.d. Niš in December 2005, and in March 2006 it officially became the owner of Niška banka a.d. Niš. Takeover of the majority share package of Zepter banka a.d. Belgrade and purchase of Kulska banka, contracted in July, were successfully completed in December 2006.

Vojvođanska banka a.d. Novi Sad, started its business in 1868 as a credit union when the first branch in Sombor was opened. The name Privredna banka, which had years, was changed in 1973 to Vojvođanska banka. The Bank changed its legal form into a joint-stock company in 1995 and became Vojvođanska Banka a.d. Novi Sad.

At the end of 2006, the acquisition of Vojvođanska banka a.d. Novi Sad by a group of the National Bank of Greece was carried out, and in 2008 the National Bank of Greece, which operated under that name on the Serbian market, was joined to Vojvođanska banka a.d. Novi Sad.

In August 2017, OTP bank Serbia a.d., Novi Sad signed an agreement with NBG Group on taking over 100% ownership of Vojvođanska banka a.d. Novi Sad and NBG Leasing ltd Belgrade. December 1, 2017, OTP Bank Serbia a.d. Novi Sad announced the completion of the acquisition of 100% ownership of Vojvođanska banka a.d. Novi Sad and in this way the Bank became a member of OTP Group whose presence on the market has been in existence for many years and whose plans for the future are also long-term.

On April 26, 2019, successful integration of two banks was completed, which continue to work as one, under the name Vojvođanska banka a.d. Novi Sad. Integration, which lasted for more than one year, brought to clients lots of benefits, including increased spectrum of products and services which represent the synergy of the best solutions, higher efficiency and coverage with over 100 branches throughout the country. During the whole 2020, Bank was equally committed to its clients, providing quality services, realizing plans and good business results, and working on the process of merging with OTP banka Srbija a.d. Beograd.

Vojvođanska banka a.d. Novi Sad is a proud member of various business organizations and associations, including the Association of Serbian Banks, the Serbian Chamber of Commerce, the American Chamber of Commerce, Forum for the prevention of credit frauds, Forum for the prevention of payment cards fraud, Forum for Responsible Business, Alliance of Economists of Serbia, Alliance of Economists of Vojvodina, Belgrade Stock exchange, Central Registry. Vojvođanska banka is a proud member of the UNICEF Friends' Club.

During 2020, Vojvođanska banka, by its investments, continued to promote its socially responsible business in Serbia, since its social responsibility arises from a firm and deep conviction and the need to thank to society for trust and good and long cooperation.

4. Macroeconomic environment and the Banking sector

In May, the global economy began to gradually recover from the crisis referred to as “The Great Lockdown”, supported by expansionary fiscal and monetary policy measures of a large number of countries. As the decline in economic activity in the second quarter, particularly in advanced economies, was softer than projected, with relatively strong recovery taking place in the third quarter, the leading international financial institutions revised upward the global growth outlook for this year. In October, the International Monetary Fund revised upward the global growth projection for 2020 by 0.8 pp to -4.4%. Somewhat slower recovery, of 5.2%, is expected in 2021 compared to June as it is assumed that some containment measures will remain in force during 2021 – they will be gradually abolished as the use of the vaccine grows. Faster than expected recovery as of May was also seen in the euro area, our most important trade and financial partner. Still, leading economic indicators suggest that the pace of recovery is losing momentum due to weaker activity in the services sector. As the coronavirus began to spread anew, containment measures were re-introduced in many countries, making it difficult to predict the speed of recovery in the coming period and the return of economic activity to the pre-crisis level.

In conditions of simultaneous shock on the supply and on the demand side, inflationary pressures remain low globally. In the euro area, year-on-year inflation has even been in the negative area as of August. Consistent with this, leading central banks, the Federal Reserve System and the European Central Bank, continued to support economic activity and to signal their readiness to further ease their monetary policies if needed. The third quarter was marked by frequent shifts in investors’ risk propensity, prompted primarily by changing news about the course of the pandemic. At the same time, the risk premia of most emerging economies, including Serbia, declined in the third quarter.

Since the start of the year, year-on-year inflation has been moving in line with expectations. It equalled 1.3% in December. Cost-push inflationary pressures remained low, owing to lower global oil prices compared to their pre-pandemic levels, the maintained low costs in food production, and ensured relative stability of the exchange rate. Despite the continued growth in wages and employment in most sectors, amid reduced propensity to consume and dented external demand, demand-side pressures also remained low, as indicated by core inflation of 2.1% in December. That inflationary pressures are low is also confirmed by the one and two year ahead inflation expectations of the financial and corporate sectors, which continue to move below the inflation target midpoint.

After publication of the majority of economic indicators by end of September, it became quite clear that the GDP outcome in 2020 as a whole would be better than the initially projected -1.5%. The NBS therefore revised its GDP growth projection for this year to -1%, one of the best GDP growth outcomes in Europe. The Board highlighted that industry and retail trade had already reached precrisis levels and exports were on the path of normalisation, as well as that the current growth projection for 2020 also reflected improved performance of agriculture. Favourable prospects were further confirmed by the foreign direct investments inflow, which remained solid in the face of the pandemic and the economic slowdown of our key foreign trade partners and more than sufficient to cover the current account deficit.

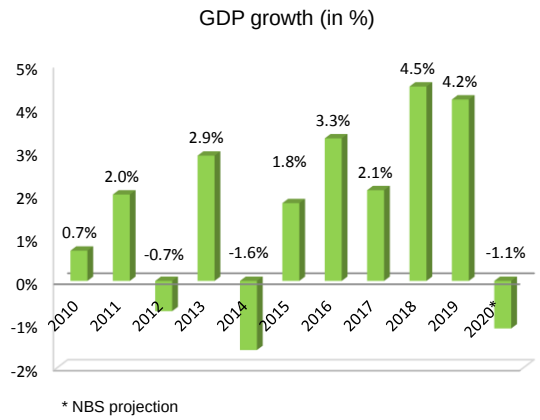
On the expenditure side, a more favourable outcome is supported by the faster than expected recovery of investment, primarily thanks to the preserved full macroeconomic and financial stability during the pandemic, sustained production capacities, accelerated infrastructure projects, and maintained favourable financing conditions. Domestic factors may contribute to an even better than expected outcome in 2020, though one should bear in mind the exacerbation of the epidemiological situation in the world, which may cause a new slowdown in the euro area and thus dampen the recovery of our exports. Next year, we expect accelerated economic recovery of around 6%, led by domestic demand and exports, with the key role played by the timely and adequate response of economic policy makers in Serbia and the expected recovery of external demand, which

will ensure the return to a stable medium-term growth trajectory of around 4% at the annual level. The risks to the projection for next year are symmetric and relate primarily to the course of the pandemic and the resulting speed of economic recovery both in the world and at home.

Economic activity

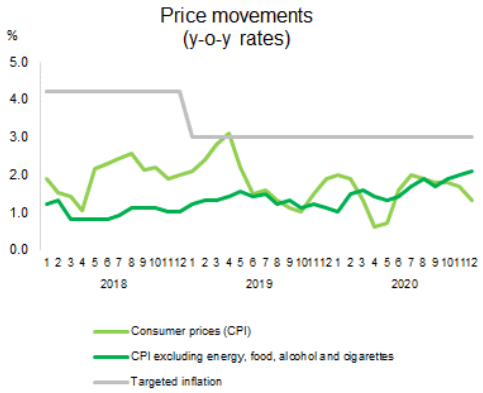
The period before the outbreak of the pandemic was marked by favourable macroeconomic trends in the domestic market, as signalled by leading monthly economic indicators, labour market indicators and fiscal and monetary trends. Serbia faced the crisis in a much better position, with the average GDP growth rate of 4.3% in the past two years. The economy contracted in the second half of March, reflecting lower external demand and aggravated terms of business in many sectors.

SORS estimate of Serbia's growth in 2020 is at the level of - 1.1%, which is one of the best results in Europe, owing to the achieved and preserved macroeconomic, financial and fiscal stability in previous years and due to comprehensive and timely economic relief package. According to estimates, the decline did not come from tradable sectors (agriculture, industry), but from the service sectors most severely affected by the pandemic (tourism, catering, transport, recreation and culture), while construction recorded a minimal decline.



Inflation

Inflation is kept under control, moving around 2% on average in the past seven years, while in December 2020 stood at 1.3%. Fruit and vegetable prices as well as oil derivatives prices mainly led the dynamic of inflation in 2020. The biggest positive contribution to inflation came from services prices, processed food and cigarettes. The biggest negative contribution came from prices of oil derivatives. Average core inflation in the last seven years stood at 1.5%, confirming price stability. Its growth since the beginning of the 2020 year has been driven by a one-off price increase of telephone services and travel packages.



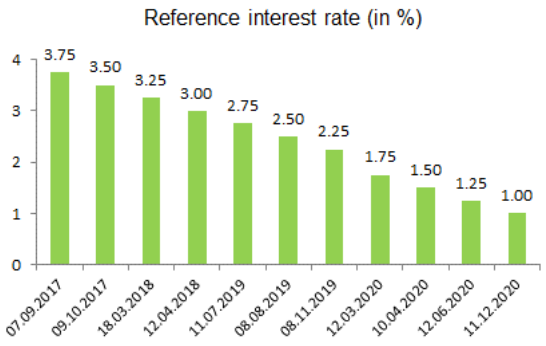
Disinflationary pressures that prevail in the medium run will come from low aggregate demand, as well as low imported inflation, while the disinflation effect from the oil prices drop in the previous period will gradually wane. With the expected recovery of demand, supported by the adopted accommodative monetary and fiscal policy measures, inflation will gradually move towards the target midpoint in 2022.

Monetary policy

The NBS lowered the reference interest rate four times during 2020, in March for 0.5 pp, and in April, June and December for 0.25 pp. It is currently at the historically lowest level of 1%. The easing of monetary policy provides additional support to the domestic economy and contributes to a further decline in interest rates on the interbank money market. Due to the earlier undertaken measures and activities of the National Bank of Serbia, smooth functioning of the interest rate and credit channel was ensured

and corporate and household credit conditions remained favourable during 2020.

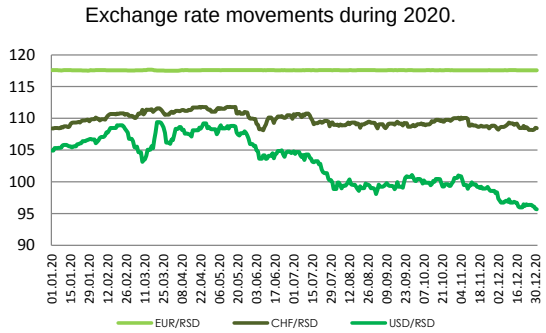
The trend of convergence of interest rates on dinar and euroindexed loans, present for a longer time already, particularly in the corporate sector, continued, contributing to the increase in the degree of the dinarisation of receivables to the record high level (36.6% in September), and thereby to further strengthening of financial stability. Domestic loans continued to record two-digit, year-on-year growth rates in 2020, and were higher by 13.3% year-on-year in September, with the contribution of corporate loans being higher than that of household. Monetary policy easing as of March and the approval of loans under the Guarantee Scheme to micro, small and medium-sized enterprises and entrepreneurs, provided a strong credit impulse to the real sector. At the same time, disposable income increased also owing to the Moratorium on the repayment of credit liabilities and lower loan repayment costs, contributing to the recovery of domestic demand.



Exchange rate

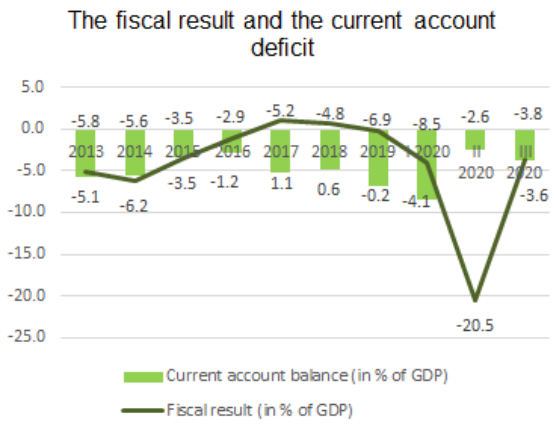
Though depreciation pressures, triggered by the global spread of the pandemic, were present in 2020, stable movements of the EUR/RSD exchange rate continued, so its value remained almost unchanged since the beginning of this year. The dinar's stability was mainly supported by the NBS's FX liquidity provision to banks against the background of limited supply of foreign exchange and cash.

Domestic companies were a significant factor driving net FX demand, partly due to the lower FX supply in conditions of international economic contraction during the pandemic. On the other side, working on the FX supply side was the increasing FX-indexed lending to corporates and households, and extent the longer positions of banks based on the use of payment cards by non-residents.
In order to maintain relative stability in the domestic FX market, the National Bank of Serbia intervened on the IFEM both on the purchase side and on the sales side.



The fiscal result and the current account deficit

During previous years, Serbia eliminated fiscal deficit, with government investments reaching near 5% of GDP. High deficit during Q2 2020 was a consequence of pandemic, which resulted in direct tax relief and double-digit increase in expenditures for support measures to private sector companies, as well as for medical equipment procurement. Revenue recovery, along with slowdown in spending in Q3, enabled fiscal deficit to decline to 3.6% of GDP.



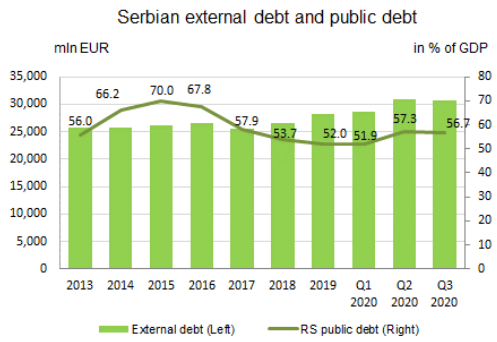
Foreign trade

Despite global value chains disruption and the decline of external demand, exports remained relatively resilient on the back of increased

product and geographic diversification and activation of export oriented investments. Small decline in overall exports of goods and services in 2020 will be driven by decrease manufacturing exports due to reduced external demand and disruption in global value chains.
The greatest reduction in imports in 2020 is expected in energy and other industrial inputs, as well as in services. Oil price decline will have a delayed additional effect on lower natural gas prices throughout 2021. As of 2017 Serbia saw a faster growth in imports on account of capital and intermediate goods related to investment and industrial activity as well as growth in domestic demand.

External debt and public debt

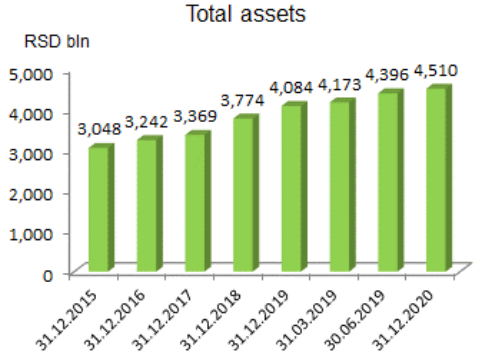
During eleven months of 2020. public debt increased to 56.8% of GDP (from 52,0% at the end of 2019), mainly due to a 7 year Eurobond of EUR 2 billion, issued in May, at a rate of 3.375 % (coupon rate of 3.125%), for covering increasing financing needs in light of the pandemic. According to Revised Budget, public debt is projected to remain below 60% of GDP in 2020. and return to decreasing trend in the following years. In the medium-term deficit should return to around 0.5% of GDP, enabling continuous decrease of the level of public debt.



Banking sector

At end of Q3 of 2020, the Serbian banking sector numbered 26 banks, among which foreign-owned banks still have a dominant share. The banking market is very saturated since the five largest banks have 53,2% of the market share which is almost unchanged compared to the end of 2019 (53,4%). Consolidation of the banking market can be expected in the future in order to reduce the number of banks and to strengthen the market power of the largest banks.

At end of September 2020, total net balance sheet assets of the Serbian banking sector amounted RSD 4,510 billion, and total capital RSD 717 billion.



Net result before taxes in the overall banking sector achieved in the first nine months of 2020 amounted to RSD 43.4 billion, representing a decrease of 19.7% compared to the same period previous year. A positive result was reported by 19 banks with total profit of RSD 44.6 billion, while 7 banks operated with a loss of RSD 1.2 billion.

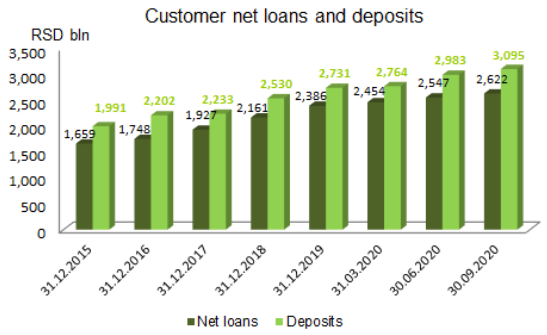
Changes in key elements of banking sector profitability (in RSD mln)

	30.09.2019.	30.09.2020.	Change
Net interest	96,082	96,357	⇧ 0%
Net fees	30,717	29,598	⇩ -4%
Credit losses	-9,961	-14,677	⇩ 47%
Exchange rate effect	5,888	6,586	⇧ 12%
Result	54,116	43,433	⇩ -20%

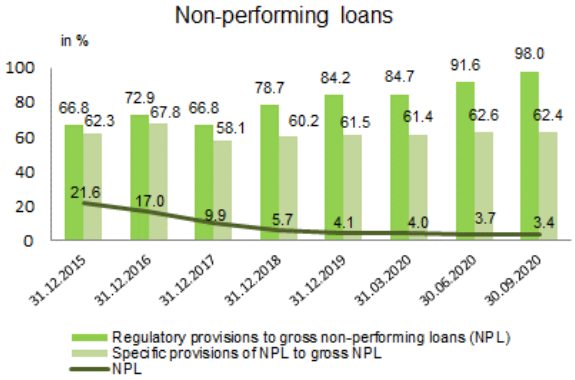
Total net loans of the banking sector in Serbia at the end of the third quarter of 2020 increased by 9.9% comparing to end of previous year. Measured by the share of dinar in total receivables, the dinarisation of corporate and household receivables reached record 36.6% in September.

The main sources of financing of the banking sector in Serbia are still received deposits, which share in total liabilities was 68.6%. Total deposits at the end of the third quarter amounted to RSD 3,095 billion, which represents an increase of 13.3% as compared to

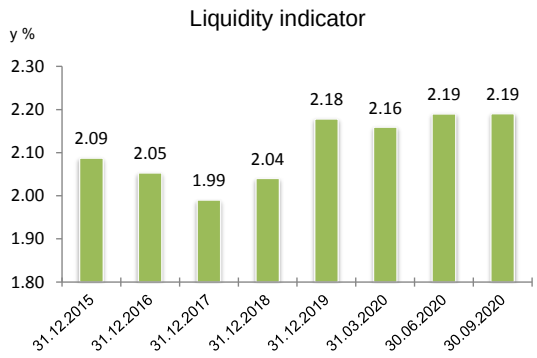
end of last year. Since the beginning of the year till September, dinar household savings gained RSD 9.8 billion, or 12.4%, despite the pandemic-induced crisis, which indicates citizens' confidence in the stability and safety of the banking sector. Dinar savings remained more attractive than FX savings also due to higher interest rates and a more favourable tax treatment.



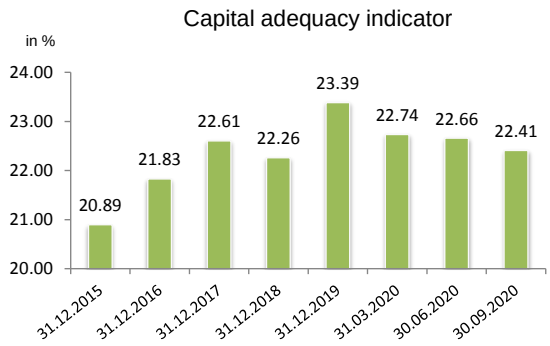
The gross NPL ratio decreased during 2020. to its lowest level until now of 3.4% in September. The NPL ratios of the corporate and household sectors declined to 2.5% and 3.6% in September, respectively. The NPL coverage remained high – in September, allowances for impairment to total loans stood at 98.0% of NPLs, and allowances for impairment to NPLs measured 62.4%.



The Serbian banking sector is still characterized by very high liquidity. At the end of the third quarter of 2020, the average monthly liquidity ratio stood at 2.19% (regulatory minimum is 1%), while the narrower liquidity ratio stood at 1.93% (regulatory minimum is 0.7%).



The Serbian banking sector is well capitalised. At the end of September 2020, capital adequacy ratio of the Serbian banking sector averaged 22.41%, well above the National Bank of Serbia regulatory minimum (8%). This data indicates the high resilience of the banking sector in Serbia.



5. Development and financial position of Vojvođanska banka in Serbia

In 000 RSD

Income Statement	2019	2020
Net interest income	5,897,931	7,161,662
Net fees and commissions income	2,112,129	2,639,656
Operating expenses*	-8,203,394	-8,840,572
Profit before tax	5,895,741	-1,226,430
Profit after tax	5,982,870	-1,179,455
Adjusted profit after tax **	**871,381**	**-93,284**
Balance Sheet		
Cash and balances with central bank	40,303,963	33,251,589
Loans and receivables	147,945,642	174,949,023
Securities	13,581,962	17,228,522
Other assets	13,217,010	13,752,349
Total Assets	**215,048,577**	**239,181,483**
Deposits and other liabilities to other banks, financial organizations, central bank and other customers	179,111,790	202,821,962
Reserves	1,291,467	1,544,219
Subordinated liabilities	0	1,177,041
Other liabilities	2,802,943	2,972,553
Total liabilities	**183,206,200**	**208,515,775**
Total equity	**31,842,377**	**30,665,708**
Total liabilities and equity	**215,048,577**	**239,181,483**
Key performance indicators		
Capital adequacy ratio (CAD)	20.89%	18.11%
Net interest margin (total assets %)	2.78%	3.15%
ROA**	0.41%	-0.04%
ROE**	2.73%	-0.30%
Number of employees	**1,957**	**1,786**
Number of branches and sub branches	**138**	**122**
Total assets market share	**5.3%**	**5.4%*** **

** Operating expenses include wages, salaries and other personnel expenses, depreciation costs and other expenses*

***The result and indicators for 2019 & 2020 are adjusted for expenses related to integration and modification effect regarding moratorium*

**** as of 30.09.2020*

Note: Balance Sheet and Income Statement are given in more details in Appendix 1 and Appendix 2.

Despite the crisis caused by the pandemic and the economic slowdown in the first month of 2020, the Bank managed to operate stable. This resulted in an increase in the Bank's balance sheet assets as of 31 December 2020 by 11% compared to the end of 2019, amounting RSD 239,181 million. The increase in the balance sheet assets was significantly influenced by the increase in the position of loans and receivables from customers in the amount of RSD 28,391 million. This increase positively influenced the increase in the market share of loans by 0.57% compared to the end of 2019.

During 2020, the process of merging Vojvođanska banka a.d. Novi Sad and OTP banka Srbija a.d. Beograd was continued, which resulted in an increase of costs for the implementation of integration. In December 2020, the modification cost was booked which refers to the assessment of the net present value of the future cash flows of all loans on which Moratorium (contract modification) was applied. Loss after tax amounts RSD -1.179 million in 2020. The Bank's business result would be RSD -93 million if these one-off integration costs and the effect of modification were excluded.

The Bank managed to maintain the capital adequacy ratio significantly above the prescribed minimum during 2020, which amounts 18.11% with the balance as of December 31, 2020.

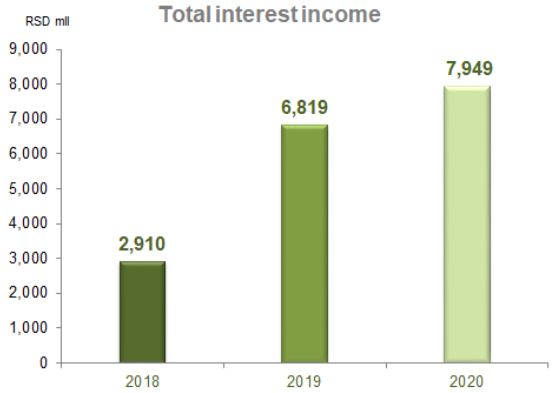
In order to maintain all business indicators in accordance with the prescribed limits, the Bank withdrew a subordinated loan from a member of the Group in the amount of EUR 10 million in December 2020.

Income statement

The Bank realized positive operating result (before impairments and taxes) in the amount of RSD 1,942 million during 2020.

Income

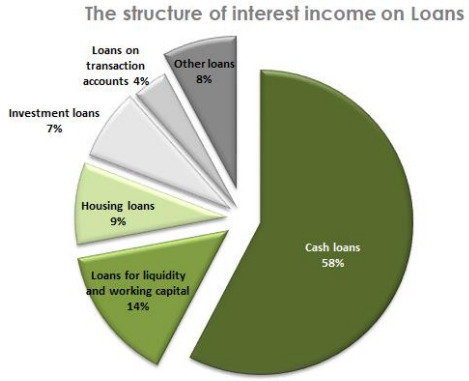
The decrease in the key policy rate on the market had an impact on the downturn in the average repo rate, as well as on the downturn in interest rates on the banking market. In accordance with this trend, the Bank lowered the interest rates on RSD loans by ~1.3 pp. which affected the reduction of interest income. The Bank overcame this decline of income through more intensive lending activity, even in a crisis caused by a pandemic, therefore total interest income in the year 2020 amounted RSD 7,949 million. This is increase of 17% compared to the previous year.



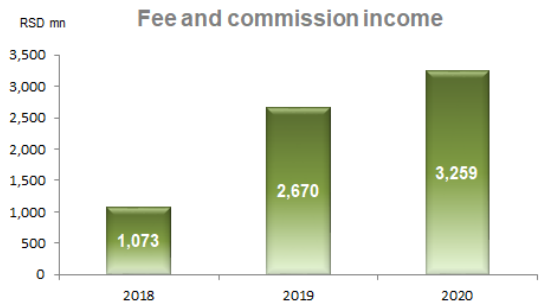
In the total interest income structure, interest income on loans and securities took the most significant part. Interest income from loans participates with 94.4%, while income from securities participates with 4.5% in total interest income.

Despite the decrease in interest rates, the increase in the average balance of the securities portfolio during 2020, led to an increase in interest income from securities. The Bank achieved an increase in interest income on this basis by ~16%.

Interest income on loans and receivables from customers in 2020. remained at a similar level as in previous year. Lower Interest rates did not affect interest income on loans, given that the average volume of non-performing loans was higher in 2020. Interest income on cash loans and loans for working capital and liquidity participate with 72% in total loans interest income.

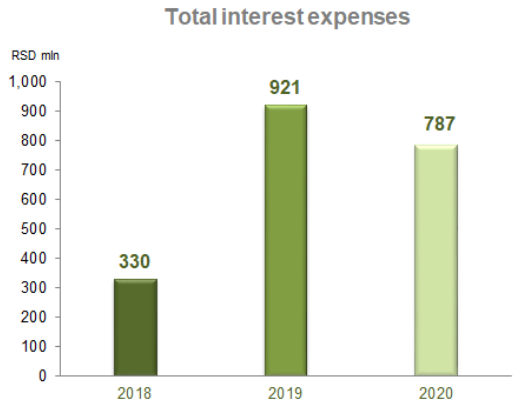


In 2020, fees and commissions income reached RSD 3,259 million and they achieved a growth of 22% compared to 2019. This is primarily the result of income from payments and turnover that makes ~31% of total income and which are mostly perfomed by corporate clients. Significant participation in total fees income has card transactions ~24% and account keeping fees ~30% that increased due to growth number of clients.

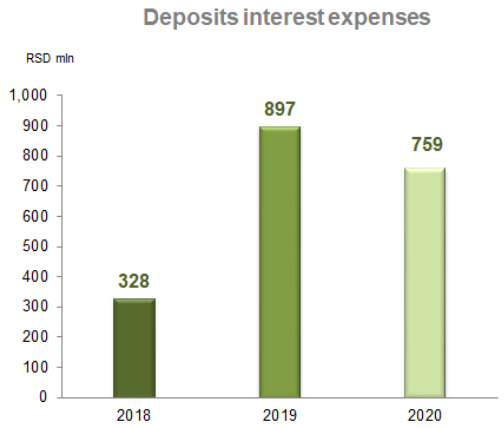


Expenses

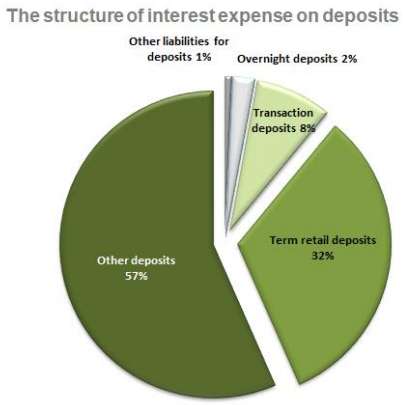
The decrease in interest rates on the market had an impact on the level of the interest rates of Vojvođanska banka. Interest rates on local currency deposits decreased by ~0.6 pp. In accordance to this decrease, the total interest expense was reduced in 2020. by 15% compared to 2019.



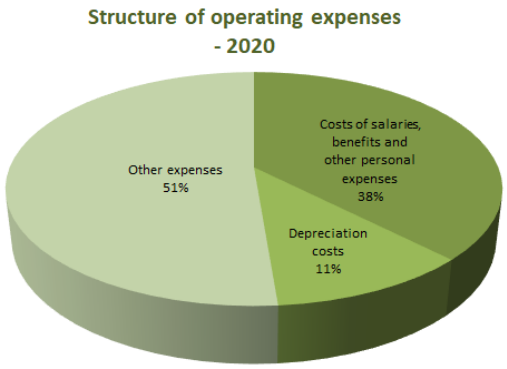
In the structure of interest expenses, the majority are interest expenses from deposits.



Term retail deposits and other deposits took the largest part in deposits expenses (89% in total).



In the structure of operating expenses, the majority are other expenses ~51%. Wages, salaries and other personnel expenses contribute to 38% of total operating expenses, while depreciation costs account for 11% of total operating expenses.

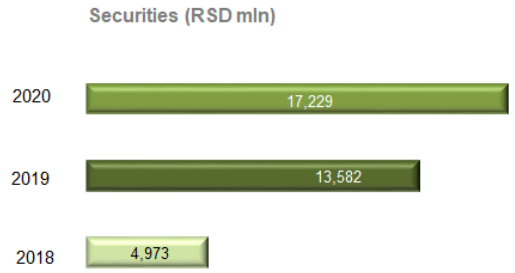


Balance sheet

Vojvođanska banka increased its balance sheet assets for RSD 24,133 million in 2020 compared to the end of 2019 as a consequence of the stable growth of credit activity, and managed to maintain and improve its position in the banking market, and this year also remained among the ten largest banks in Serbia.

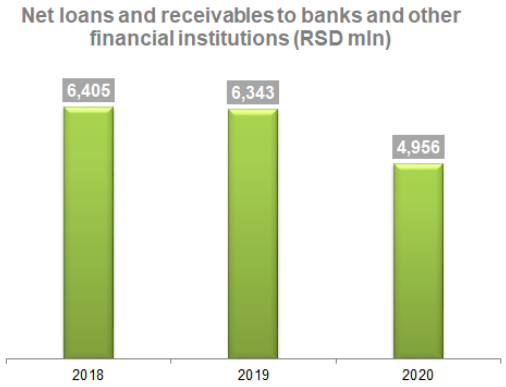
Securities

Securities, as of 31st of December recorded a growth of 27% compared to 31.12.2019. The Bank has increased the level of investments in government bonds due to surplus liquid funds, and also bought Telekom Srbija bonds in the amount of RSD 1.175 million at the end of September. Accordingly, the share of securities in total assets increased from ~6.3% to ~7.2%.



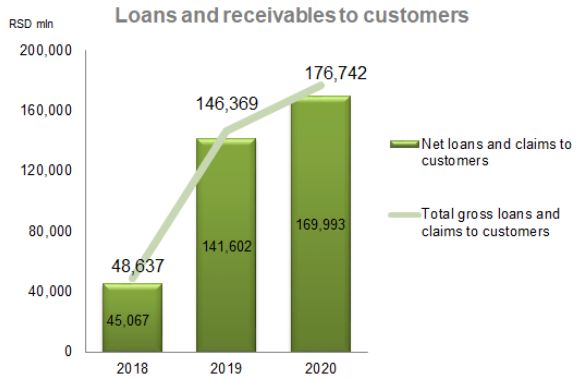
Loans and receivables from banks and other financial institutions

Net loans and receivables from banks and other financial institutions were in line with the achieved level of deposit and credit activities of the Bank, in order to achieve greater profitability of total business.



Loans and receivables from customers

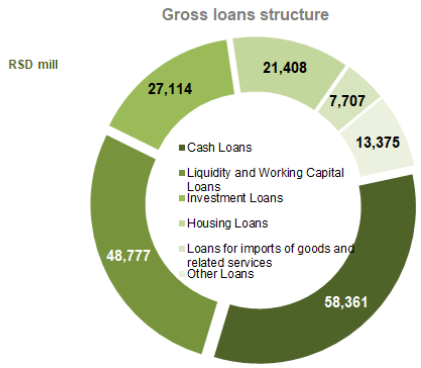
Vojvođanska banka increased the level of gross loans and receivables to customers for ~21% in 2020. The increase in gross loans was recorded primarily in loans given to corporate (23.4%) and cash loans to retail (23.4%).



In terms of sectoral structure, in the structure of gross loans, corporate and loans to public entities contribute with share of 50.0%. The largest part of corporate loans is loans with a foreign currency clause and foreign currency loans.

Retail sector participates with 46.1% in total gross loans and receivables from customers. Cash loans represent the largest share in total gross retail loans of 71.7%, while mortgage loans took part of 26.3%.

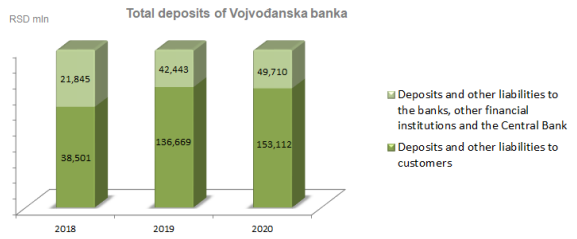
From the products point of view, in the gross loans structure, cash loans have the largest share of 33.0%, and liquidity and working capital loans have the share of 27.6%.



The ratio of gross loans to deposits from customers amounted to 115% as of 31.12.2020.

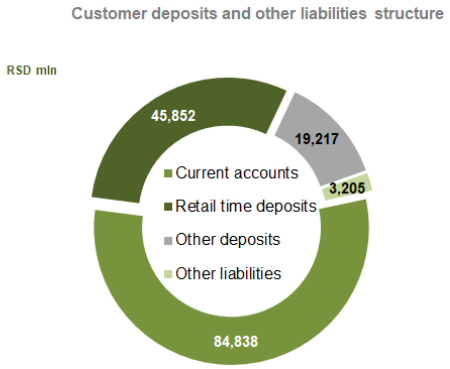
Deposits

The conditions for maintaining a high level of liquidity and growth of placements both for commercial entities and for individuals were secured by increasing the level of deposits in 2020. Total deposits of Vojvođanska banka amounts RSD 202.8 billion as of December 31, 2020 and most of it is from customers ~75%, whilst the remaining ~25% refers to financing from banks and financial institutions.



Savings deposits participate with 30% in total deposits while transaction deposits have largest contribution of 55%.

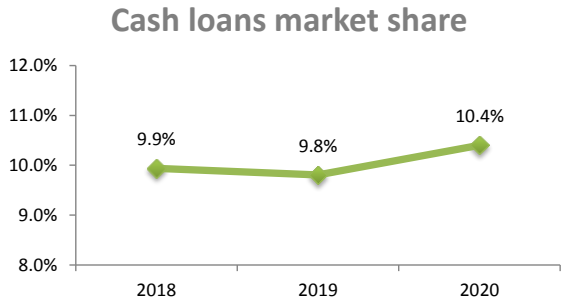
FX deposits participate with 53% in total customer deposits, with the largest part referring to retail term FX deposits. On the other hand, deposits in local currency mostly come from legal entities.



Retail banking

Vojvođanska banka has succeeded in increasing gross loans to households by 18.6%, and to increase the market share from 6.8% to 7.1% in 2020.

Favourable trends are the result of finding the optimal level of price and product combinations. Special campaigns were organised for cash loans, which was reflected in cash loan increase of ~23.6% compared to the previous year, and increase of market share in the part of cash loans to the level of ~10.4%.



The efficient organization of work in the conditions of the pandemic caused by the corona virus also significantly contributed to the growth of cash loans, where the focus of Vojvodjanska banka was on timely and adequate customer service, but primarily on preserving the health of both employees and clients. In this sense, much greater emphasis was placed on alternative service and sales channels, with much more intensive activities within the Contact Center, and an increased share of "online" sales compared to previous periods. This has significantly helped to preserve the client base in the situation of temporary closure of certain branches due to pandemic reasons.

In the area of housing loans, the Bank carried out activities to improve the sales process and harmonize products, in order to provide customers with an improved user experience, as the first step in forming a long-term relationship that is characteristic of this banking product.

Also, in accordance with the decisions of the National Bank of Serbia, Vojvodjanska banka successfully responded to the requests of the NBS and implemented a moratorium, ie stopped the maturity of credit liabilities to clients who declared themselves for that. In addition, a package of measures of the National Bank of Serbia has been implemented, ie clients are enabled to reprogram/refinance existing credit liabilities if they choose to do so.

During 2020, in the spirit of its tradition, Vojvođanska banka organized a series of special benefits for credit and debit card users. Performance and customer satisfaction are reflected in the growth of volume and number of transactions compared to the previous year.

Digital banking campaigns were also active during the year, so through a series of activities and campaigns, the Bank managed to achieve a growth in the number of users of digital channels and services, as well as to increase the number of transactions in this way. Based on the all above, in 2020. the Bank increased the number of active clients, primarily in transaction operations.

Small Business segment was strongly influenced by the pandemic caused by the corona virus, and having in mind that small business and entrepreneurs suffered the most during the crisis, the focus in 2020 was to respond to the demands of small business clients in terms of digital services and support in repaying their credit liabilities.

In this sense, in April 2020, Vojvodjanska banka signed the Guarantee Agreement of the Republic of Serbia with the Ministry of Finance and the National Bank of Serbia for lending to the economy, micro and small enterprises under agreed conditions. Loans from the Guarantee Scheme included loans for liquidity and working capital under more favorable conditions for clients.

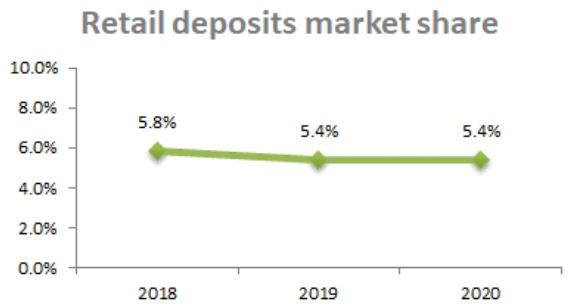
During 2020, Vojvodjanska banka in the Small Business segment disbursed loans to legal entities and entrepreneurs in the total amount of 3,061 million RSD, of which 2,184 million RSD are loans from the Guarantee Scheme.

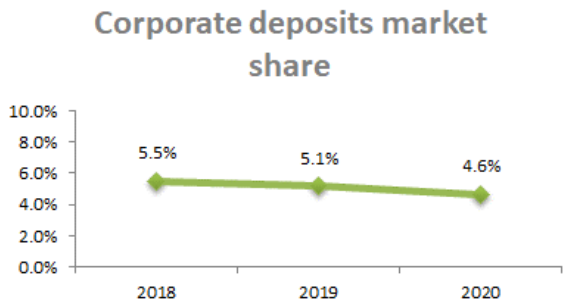
The bank provided support to the segment of registered agricultural holdings through a standard loan offer as well as through participation in subsidized loans from the Ministry of Agriculture and cooperation with local governments. The total realization in the segment of registered agricultural holdings was 573 million RSD.

In the first quarter of 2020, in cooperation with the European Investment Fund, Vojvodjanska banka also applied for a guarantee scheme - the program for employment and social innovation (Employment and Social Innovation - EaSI). The goal of this program is to enrich the bank's offer with loans that will have relaxed conditions in terms of mandatory collateral in order to facilitate access to financing for legal entities, entrepreneurs and registered agricultural holdings.

The EaSI guarantee scheme was approved in October 2020, and in December 2020, Vojvodjanska banka and the European Investment Fund signed a Microfinance Guarantee Agreement within the Employment and Social Innovation Program. Products from the EASI program, which will be part of the bank's regular offer to small business clients and registered agricultural holdings, include working capital loans and investment loans.

Independently of the introduction of new products in cooperation with the EIF, the standard loan offer in the small business segment has been improved in a way that has enabled a wider customer base suitable for lending and longer financing terms.
The market share of retail deposits of Vojvođanska banka at the end of 2020. remained at the same level comparing as in the previous year, and recorded a level of ~5.4%.

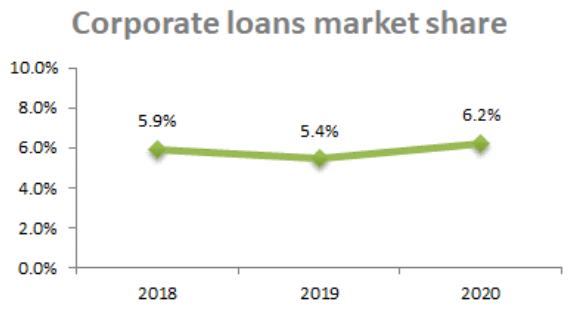




Corporate banking

The basic goal in corporate business during 2020 was maintaining long-term relationships with clients and providing quality services and diverse products.

Total gross corporate loans increased in 2020 by improving business cooperation with new and existing clients as well as due to approval of loans under the Guarantee Scheme of the National Bank of Serbia. During 2020, Vojvođanska banka has approved loans in amount of 8.7 billion dinars to medium and large companies. This also affected the increase in the market share of corporate loans from 5.4% at the end of previous year to 6.2% at the end of current year.



The largest part of approved loans was related to loans for working capital, which continued the trend from previous years. FX indexed loans accounted for the largest portion of approved and disbursed loans.

At the end of 2020, the market share of corporate deposits of Vojvodjanska banka recorded a level of ~ 4.6% as a result of preferable increasing Group funding.

6. Financial risk management

General framework

Activities related to risk management at all organizational levels are guided by the mission of realizing shareholder value by optimizing the risk to return ratio, taking into account the interests of customers and employees in a manner that is consistent with best practice and compliance with regulatory requirements.

The risk management structure is organized in accordance with the Law on Banks, the relevant decisions of the National Bank of Serbia, which define the area of risk management and capital adequacy, as well as the Bank's Risk Management Strategy.

The general objectives of the Bank’s risk management are:

- Establishment of basic principles and standards for risk management in the Bank;
- Support to the Bank's business strategy by ensuring that business goals are achieved with controlled risk;
- Improvement of the use and allocation of capital and increase of revenue from capital adjusted to risks by including risk in the measurement of business performance;
- Support to the decision-making process by providing the necessary information relating to the risks;
- Ensuring consistency with best practices and compliance with local regulatory, quantitative and qualitative requirements;

- Providing cost-effective risk management by reducing overlapping and avoiding inadequate, excessive or outdated policies, processes, methodologies, models, controls and systems.

Credit risk

Credit risk is the most significant material risk the Bank is exposed to.

The process of continuous measurement, monitoring and control of credit risk is based on:

- consistent tools for scoring and ranking credit placements in order to standardize and improve credit assessment, as well as to establish a system of limits in line with the level of estimated risk;
- the process of regular monitoring of credit exposures harmonized with regulatory requirements, as well as with best practice standards and
- information system and analytical techniques that allow measurement of credit risk in all relevant activities and provide adequate information on the content of the loan portfolio, including the identification of possible concentration of risk.

The basic method of mitigating credit risk is ensuring the collateral for a loan. The Bank's credit policies determine the types of eligible collateral in the form of funded and unfunded credit protection, whereas the conditions to obtain these collaterals, as well as the ratios for calculating the secured values in relation to the type of collateral for the purposes of loan processing, are in more detail regulated by other internal documents of the Bank.

The main types of collateral used by the Bank for the purposes of mitigating credit risk are: residential property mortgage, business property mortgage, pledge on equipment, inventory and receivables, letters of guarantee, financial assets (cash, securities) and sureties.

Exposure to credit risk with balance sheet items (positions) is presented in Appendix 3 table.

The Bank realized a decrease of the NPL indicator in 2020, resulting in the value of the indicator of 4.16% as of 31.12.2020, as per the methodology of the National Bank of Serbia. The realised indicator was lower than the last year's by 1.15 percentage points, and also higher than the NPL indicators of the banking sector, which is amounted to 3.4% in the third quarter 2020. The decrease in NPL indicators is the result of activities on the sale and collection of non-performing loans, write-off of bad assets that are fully impaired or assessed as non-performing, improvement of the loan portfolio quality, as well as by an increase in the performing loan portfolio.

Market risk

The Bank has positions in the trading book and accordingly, has established and further maintains the proper function of measuring, monitoring and controlling market risk, including:

- The processes of measuring the market risks that record all significant sources of market risk and assess the impact of changes in market risk factors in a manner that is consonant with the volume of the Bank’s activitiy. These measurement systems include VaR models for the currencies open position and BPV models for positions which are source of interest rate risk in trading book;
- Operational limits and other practices which ensure that exposures remain within levels that are in accordance with internal policies in terms of exposure to individual market risk types, positions and loss limits;
- Measurement of sensitivity to loss under stressful market conditions and taking into account those results when establishing individual limits for market risks;
- Adequate and efficient processes and information systems for measuring, monitoring, controlling and reporting on market risk exposure. Controls (limits) are incorporated in those systems. Reports are regularly made and submitted to the Board of Directors, the Executive Board, the senior management and all other relevant competent bodies.

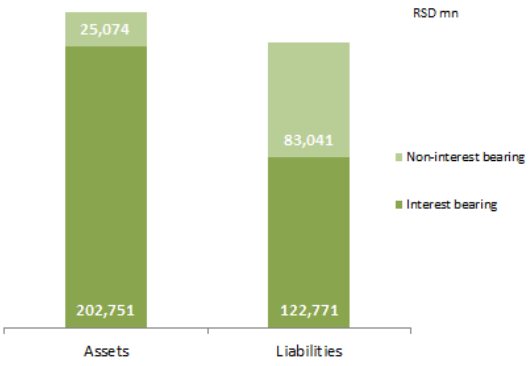
Interest rate risk

The basic instrument of interest rate risk management is monitoring the mismatch between interest sensitive assets and liabilities. The Bank regularly monitors and determines the

impact of changes in interest rates on net income and the economic value of equity.

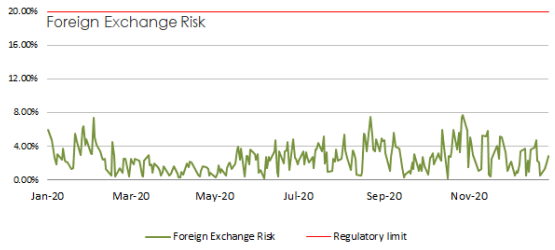
The acceptable interest risk level is limited by the sensitivity limits of net interest income and the economic value of capital thus limiting the mismatch between open asset and liability positions.

The exposure to interest risk in balance sheet items is presented in Appendix 4 table.



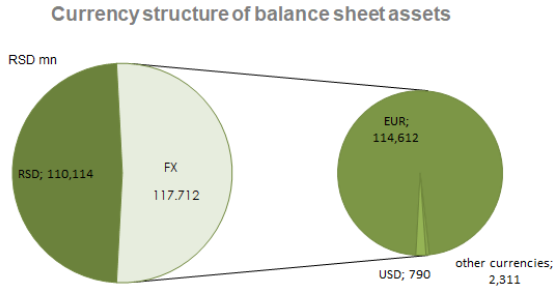
Foreign exchange risk

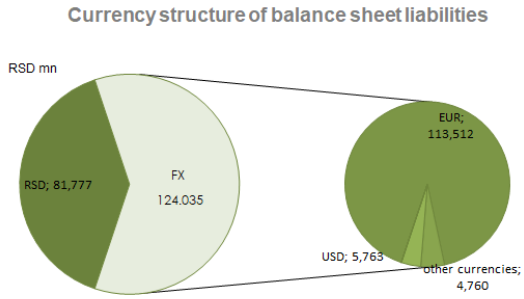
The Bank manages the foreign exchange risk by limiting and daily monitoring the compliance of this position with a limit. In addition to this, the Bank measures the indicator of foreign currency risk in accordance with the regulations of the National Bank of Serbia on a daily basis and maintains it within the prescribed limits.



The Bank has established and maintains the appropriate functions of measuring, monitoring and controlling foreign exchange risk, including an application that allows the monitoring of the open foreign exchange position both on a daily basis and during the day.

An Assets and Liabilities currency breakdown is presented in Appendix 5.





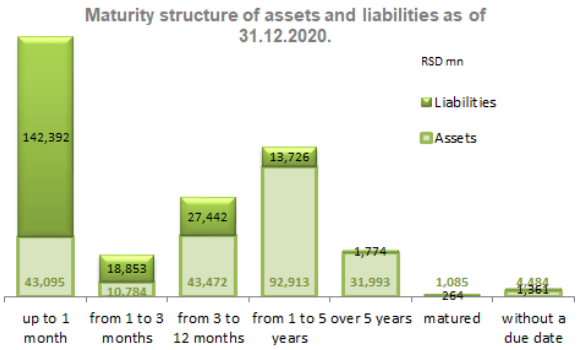
Aiming at the protection against foreign exchange risk, the Bank monitors daily changes in the market, implementing a policy of low exposure to foreign currency risk and monitoring the results obtained during simulations of stress scenarios.

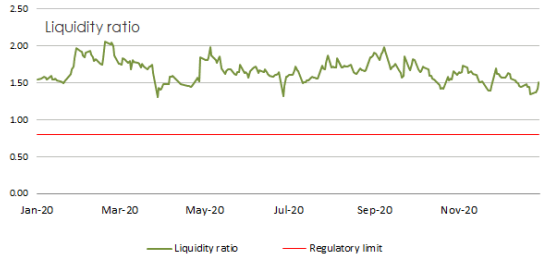
Liquidity risk

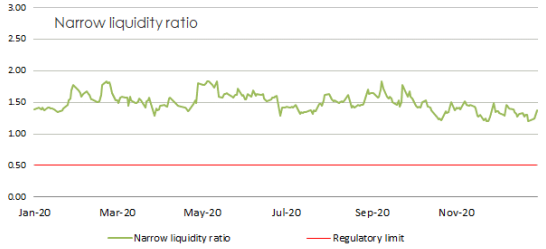
The Bank has set the framework for liquidity risk management in the Policy for Liquidity Risk Management defining roles and responsibilities in the liquidity management process, with the aim of providing various sources of financing, the corresponding management of the assets and liabilities structure, and the constant monitoring of future cash flows and liquidity on a daily basis. The Bank estimates the expected cash flows in dinars and in foreign currencies, as well as the availability of assets that can be used as a security instrument in order to provide additional financing, if necessary.

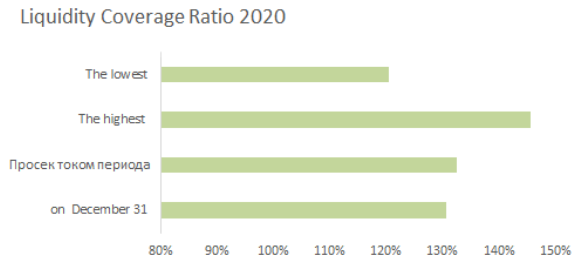
The Bank manages its assets and liabilities in a way that allows it to settle its due obligations at all times, taking into account the consistency between seasonal fluctuations in the sources of funds and loan applications. In order to better manage its sources of funds, the Bank devotes special attention to the monitoring and, measuring the concentration of deposits per different levels and types of deposits.

A table of assets and liabilities per maturity is shown in Appendix 6.



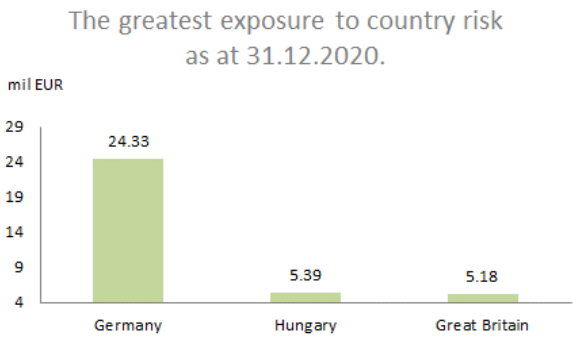






Country risk

The Bank is exposed to this type of risk on the basis of all types of cross-border financing in a particular country, either to a central government, a bank, a private company or a physical person. The Bank manages the risk of the country by establishing a system of exposure risk based on country risk. Economic, political and other events and circumstances in the countries to which the Bank is largely exposed continuously monitored and evaluated.



Operational risk

The Bank's operational risk management is regulated by the Framework for operational risk management at the level of the entire organisation with the objective to have both a proactive and reactive role in operational risk management.

The Bank's operational risk management framework includes:

- Regular monitoring of operational risk exposure;
- Methodology of operational risk including self-assessment of risk and control, key risk indicators, data collection on losses and scenario analyses;
- Collection of material operating losses at the Bank's level.

The Bank has also developed the Business Continuity Plan in order to act timely in response to unexpected business disruptions of its crucial functions. The Disaster Recovery Plan is developed as a description of procedures that pertain to recovery and continuity of applications, data, hardware, communication and other IT infrastructure in the Bank and implies the existence of an alternative place (place for recovery from disaster).

Capital management

The Bank continuously monitors its capital, in order to:

- Act in accordance with the requirements of the National Bank of Serbia regarding the maintenance of the minimum prescribed capital;
- Ensure the adequate capital level that provides operations on a continuous basis;

- Maintain a strong capital base that corresponds to the level of anticipated risks in the existing and planned operations.

The Bank's management regularly monitors the level and conformity of the Bank's capital adequacy ratio, as well as other indicators set by the National Bank of Serbia. The Bank has established a framework for capital management by adopting the Capital Management Strategy, consistent with the Bank's business strategy.

Assessment and measurement of the taken risks, as well as the adequacy of the capital base as opposed to those risks, is performed not only for the types of risk defined by the regulator, but also for all other types of risks in the Bank. This measurement is performed within the Internal Capital Adequacy Assessment Process (ICAAP) and involves the measuring according to the type of risk in the normal course of business, as well as in stressful conditions, for all types of risks that are considered material.

An overview of performance indicators as per the limits prescribed by the National Bank of Serbia on 31.12.2020 are presented in Appendix 7.

7. Plans for the future

Vojvođanska banka has defined the following strategic objectives for the period 2021:

Four main strategic directions for the future:

1. build digital culture;
2. digitize and improve operations;
3. enhance customer satisfaction;
4. establish data driven management;

- commitment to create a bank which will be a long-term choice of our clients,
- defines innovative and high quality products and services which will be offered to the clients;
-- performing activities and overall business that our clients are accustomed to; corporate soscial responsibility and support to community, clients, children and young people

- strong risk management as a pillar of support in our Bank;
- the tendency to preserve the high capitalization of the Bank, while monitoring the internal indicators and indicators established by the NBS;
- maintaining optimal liquidity combining self-funding and group financing;

- reliable;
- customer focused;
- innovative;
- effective.

8. Corporate social responsibility

In accordance with its long-term and strategic commitment, Vojvođanska banka continues to implement, as one of the leaders in the field of corporate responsibility on the domestic market, numerous socially responsible projects with the aim of contributing to the improvement of the wider social environment in which it operates. The basic principles of environmental responsibility are also incorporated into the basic business processes of everyday operations.

We have implemented significant projects in the segment of corporate responsibility, achieving successful cooperation with numerous civil society organizations, but also state institutions. Priorities in the segment of corporate responsibility were primarily focused on the health sector, local self-government and other endangered parts of society, where we have mitigated the consequences of the pandemic through numerous commodity and monetary donations.

We significantly base our business strategy on the sustainable business principles through achieving a balance between economic, social and environmental impacts and goals. Corporate responsibility of Vojvođanska banka is based on the following pillars:

1. Responsibility to clients

2. Responsibility to employees

3. Responsibility to environmental protection

4. Responsibility to the community

Clients

Creating innovative products tailored to the needs of our clients, measuring their satisfaction, as well as providing special financial support and incentives for vulnerable groups of clients are just some of the ways we contribute to the overall sustainability of operations.

Employees

Employees are our most important resource, which is why it is extremely important for us to provide them with a stimulating work environment that leads to their professional and personal development. Equal opportunities for all employees, respect for their opinions, questioning their satisfaction, nurturing team spirit, fair play relationships and professional ethics are just some of the important values of our corporate culture.

During the state of emergency in 2020, we organized an online lecture for employees with special video materials and expert advice for maintaining metal health during isolation. On a daily basis, employees are informed through an internal magazine about some bright topics and useful tips in order to at least briefly move away from the situation that has befallen us all.

Suppliers

By strengthening our suppliers and promoting sustainability in the supply chain, we contribute to employment and encourage development of the local economy and local communities. We strive to maintain long-term partnerships based on equality and transparency.

Community

In addition to independently initiating projects aimed at the well-being of the community, we are involved in initiatives of wider social importance. Our priorities in this segment of activities are support for innovative projects and entrepreneurship, support for sports, support for projects in the area of preserving cultural and historical heritage, contribution to financial education, as well as assistance to the local community, especially the most vulnerable groups. By joining local networks that promote sustainability as a healthy and desirable business model, we exchange best business practices and launch new initiatives. We believe that successful development of the wider community requires joint action of the corporate, civil and public sectors.

Environment

By constantly improving energy efficiency, responsible resource management and

reducing the direct and indirect impact on the environment, we are implementing environmentally responsible practices. For us, economic growth is not complete if it does not imply a responsible attitude towards natural resources and the environment.

Assistance to the local community during COVID - 19 pandemic

At the very beginning of declaring the pandemic, Vojvođanska banka joined the UNICEF initiative in Serbia and donated one million dinars for the purchase of medical equipment for the health sector in the country. UNICEF mobilized all available resources to immediately support efforts of the Government of the Republic of Serbia in the fight against the COVID-19 pandemic. Numerous companies in the country joined the initiative, and 50 respirators, protective equipment and hygiene packages worth over USD 500,000 were procured from the collected funds.

Vojvođanska banka has realized on a standalone basis, through its five business regions, numerous commodity and monetary donations in the desire to help primarily the health sector, but also the local self-government and other endangered parts of society. Donations were sent to: Clinical Centre of Vojvodina, General Hospital "Djordje Joanović", General Hospital "Dr Radivoj Simonović" Sombor, General Hospital from Subotica, Health Centre "Dr Djordje Lazić" Sombor, Health Centre "Dr Janos Hadzi" Bačka Topola, General Hospital Vršac, City of Novi Sad, Municipality of Odžaci, City Administration of Kikinda, Gerontology Centre Kragujevac, PI "Djurdjevdan" from Kragujevac and the Association "Blue Bird".

The Bank also joined the humanitarian action in Knjaževac, which was initiated by the "South Wind 2" film crew, with the aim of providing assistance to children from materially endangered families from the territory of this municipality. In order to provide the children with conditions for playing sports, Vojvođanska banka also donated equipment and props necessary for equipping the gym of Elementary School in Kalma, near Knjaževac.

Circle of support

We remained a loyal partner to the Olympic Committee of Serbia, with which, due to postponing the Olympic Games for 2021, we presented a support campaign entitled "Circle of Support". It is a project created in the midst of the pandemic, during the day when the state of emergency was declared in the country. The need for support was then greater than ever before, which resulted in a campaign with messages from Serbia's best athletes who encouraged each other, but also the entire community, emphasizing the need for unity and solidarity. This is how the "circle of support" was created, which is recognized at the level of the entire Southeast Europe. This campaign was declared the best sports sponsorship project in Serbia in 2020 in the selection of the regional organization SPORTO.

In this way, Vojvođanska banka also gained a place in the international competition for the prestigious "Best of Europe" award, which is awarded every year in London by the European Sponsorship Association (ESA).

During 2020, the Bank continued to implement activities with the Olympic Committee of Serbia in order to support the best athletes in the country, but also in the desire to promote sports in the wider local community.

Also, the Bank continues to make additional donations from funds generated from transactions of our Visa Olympic payment cards.

Vojvođanska banka supported the humanitarian event "Our Belgrade 2020"

In 2020, Vojvođanska banka supported the traditional humanitarian event "Our Belgrade 2020" organized by the Responsible Business Forum within the USAID-funded Framework for Giving project, implemented by the Coalition for Charity, led by the Ana and Vlade Divac Foundation. Trag Foundation, Smart Kolektiv, Catalyst Balkans, Responsible Business Forum, Serbian Philanthropic Forum and the Serbian Chamber of Commerce.

As part of the "Our Belgrade 2020" event, a volunteer action was held in which representatives of Vojvođanska banka, together with representatives of other member companies of the Forum, as well as representatives of the diplomatic corps in Serbia prepared meals for the most endangered people from Belgrade.

The Bank also contributed to the event through a free virtual workshop on digital banking, organized in cooperation with the Responsible Business Forum, during which participants had the opportunity to learn how to use available digital tools for personal finance management.

The aim of the workshop was to improve the general knowledge about all the advantages of digital banking, especially in circumstances when it is important not to expose ourselves or others to health risks. The workshop was realized with the desire to make everyday life easier for the elderly population, people with disabilities and people from risk groups, and to enable them to perform all payments, exchange operations and other financial transactions from their homes.

Financial education

With the desire to contribute to the financial education of the wider external community, and on the occasion of marking the European Money Week, the Bank created a special page on its website - Financial Classroom. On this page, we have enabled clients to increase their knowledge on some banking products and financial concepts, which can help them make good financial decisions for themselves.

Abolition of commissions for humanitarian payments to special-purpose accounts

In order to abolish commissions for all types of humanitarian payments to special-purpose accounts, and thus stimulate primarily individuals and legal entities to realize this type of payment to a larger extent, Vojvođanska banka initiated, together with the Responsible Business Forum, the creation of a central national register of all civil society organizations. Consultations and working meetings were held with key participants in this process (non-governmental sector, public sector and business sector) in order to define the most important criteria for creating the register. In this way, all banks in the country will, in the safest way, automatically release all

humanitarian payments to special-purpose accounts from commissions by entering verified data from the register into their payment system.

Financial support for digital projects

Aware of the challenges we all faced due to the pandemic, Vojvođanska banka supported the fourth Generator competition of OTP banka Srbija and provided a special award for the semi-finalists of the competition. Through this type of indirect support, the Bank wants to help in overcoming the economic consequences of the pandemic and help a large number of small and medium-sized enterprises to enhance their business through the launch or improvement of digital platforms and successfully overcome the challenging business period.

This year's competition is aimed at supporting digital projects that help and offer new opportunities to small and medium-sized enterprises. Just some of the ways to do this are to present their services and products and achieve additional visibility, provide new sales channels, create spaces where satisfied customers can evaluate and recommend their products and services, exchange experiences and ideas or even offer other ways which will benefit small and medium-sized enterprises to successfully overcome the effects of the pandemic-related crisis.

The Friends of UNICEF Club

For years, the Bank has been focused on improving the living conditions of children in Serbia. On this project it is collaborating with UNICEF as a member of the Friends of UNICEF Club. Through regular monthly donations, the Bank participates in projects and initiatives aimed at providing good conditions for happy and safe growth and education of children in the country.

Vojvođanska banka is the biggest sponsor of the Handball Federation of Serbia

Vojvođanska banka continued its successful cooperation with the Handball Federation of Serbia (RSS) as their biggest sponsor and thus continued to nurture the tradition of investing and supporting national sports. RSS sponsorship includes support for the work of the Federation and preparation of men's and women's handball teams for all competitions.

Support for event "Sports Days of the 21st Block"

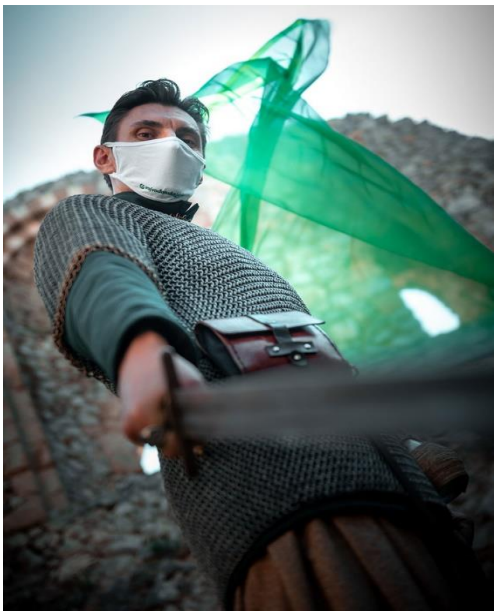
We supported the event "Sports Days of the 21st Block", which promotes sports, but in the first place it aims at healthy socializing of all generations in the local environment. The competition was held on open courts near the Retirement and Recreation Centre, and the competitors participated in five sports: archery, football, basketball, table tennis and chess.

The idea that guided the organizers was the revival and popularization of recreational sports clubs, and Vojvođanska banka, in accordance with its commitment to promote Olympic values, was happy to help in holding this event.

Support for the most famous knight festival "Just Out"

Once again, Vojvođanska banka supported the most famous knight festival in Europe, "Just Out", as a golden sponsor, which was held online due to the epidemiological situation. Fans of the medieval lifestyle, chivalry, old games and crafts could enjoy the photos and videos that were shown on the festival's website as well as through the social networks of Vojvođanska banka and the festival.

The support to the festival was realized in accordance with the Bank's commitment to support projects in the field of culture aimed at the preservation and presentation of cultural national heritage.



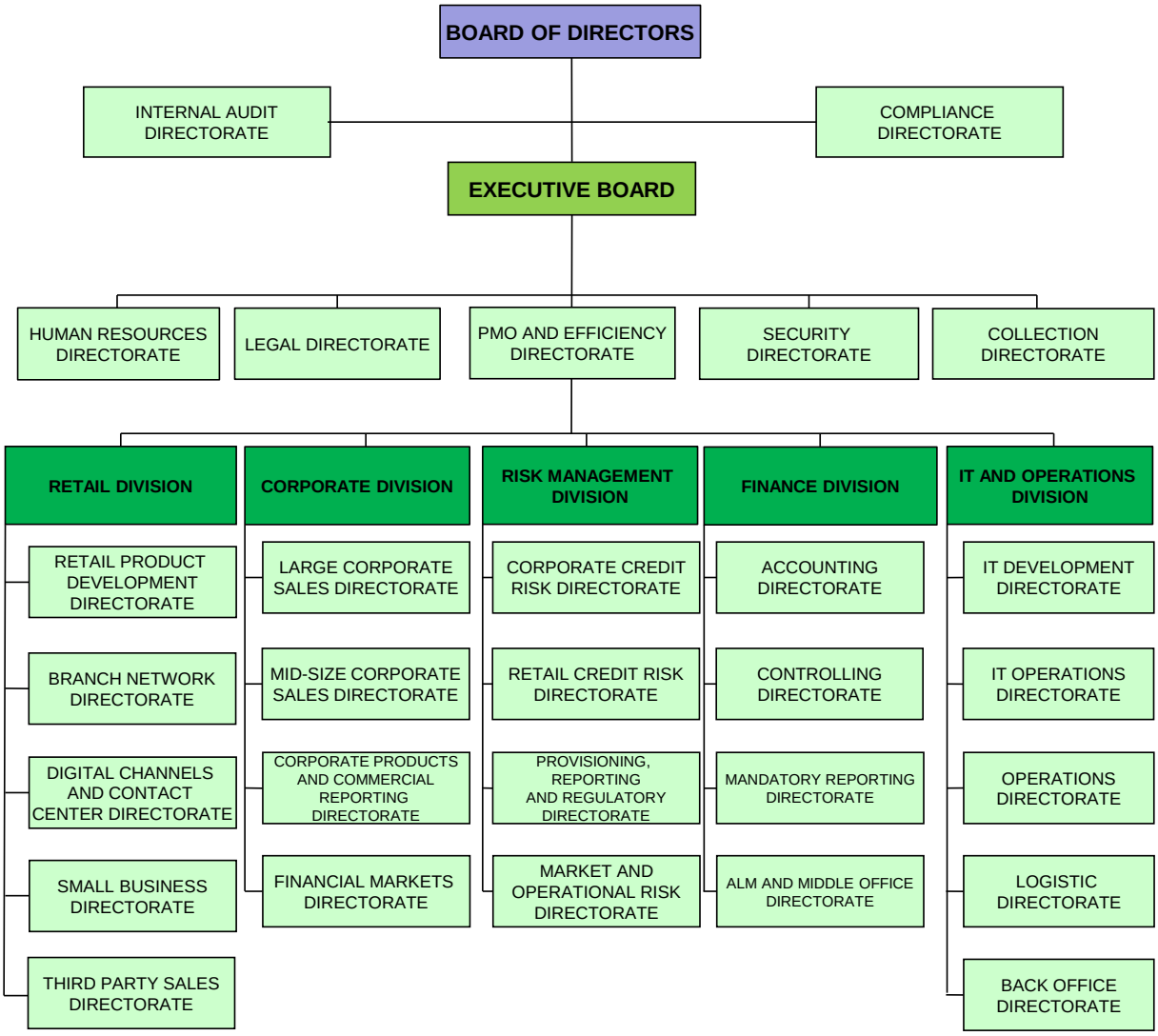
9. Significant events after the reporting date

There is no significant events and additional information after the reporting date that would require corrections or disclosures in the financial statements of the Bank for 2020.

10. Organisational structure

EMPLOYEE STRUCTURE IN VOJVOĐANSKA:

Number of employees: 1786
Average age: 44,9
Number od female/male employees: 1324/462
Univesity level education: 1320 including VI degree
Average number of year employeed within the Bank: 14,04



Predrag Vasić

President of the Executive Board

Milan Kojić

Member of the Executive Board / CFO

APPENDICES

Appendix 1. Balance sheet as of (in 000 RSD)

POSITION	31. 12. 2020.	31. 12. 2019.
ASSETS		
Cash and balances with Central Bank	33,251,589	40,303,963
Pledged financial assets	1,494,796	621,223
Receivables under derivatives	29,921	9,452
Securities	17,228,522	13,581,962
Loans and receivables from banks and other financial organizations	4,955,868	6,343,310
Loans and receivables from customers	169,993,155	141,602,332
Investments in subsidiaries	441,416	441,416
Intangible assets	641,087	635,666
Property, plant and equipment	9,355,003	9,522,112
Investment property	150,125	162,208
Deferred tax assets	400,041	350,700
Other assets	1,239,960	1,474,233
TOTAL ASSETS	**239,181,483**	**215,048,577**

Appendix 1. Balance sheet as of (in 000 RSD) (Continued)

POSITION	31. 12. 2020.	31. 12. 2019.
LIABILITIES		
Liabilities under derivatives	160,724	45,490
Deposits and other liabilities due to banks, other financial organizations and Central Bank	49,710,118	42,443,116
Deposits and other liabilities due to customers	153,111,844	136,668,674
Subordinated liabilities	1,177,041	0
Reserves	1,544,219	1,291,467
Current tax liabilities	0	48,900
Deferred tax liabilities	514,891	512,044
Other liabilities	2,296,938	2,196,509
TOTAL LIABILITIES	**208,515,775**	**183,206,200**
CAPITAL		
Share capital	34,171,370	34,171,370
Profit / Loss	(3,694,657)	(2,515,202)
Reserves	188,995	186,209
TOTAL CAPITAL	**30,665,708**	**31,842,377**
TOTAL LIABILITIES	**239,181,483**	**215,048,577**

Appendix 2. Income statement for the period (in 000 RSD)

POSITION	Current year	Previous year
Interest income	7,948,644	6,818,900
Interest expense	(786,982)	(920,969)
Net interest income	**7,161,662**	**5,897,931**
Fee and commission income	3,259,153	2,669,913
Fee and commission expense	(619,497)	(557,784)
Net fee and commission income	**2,639,656**	**2,112,129**
Net gain / loss from change in fair value of financial instruments	(108,713)	116,292
Net gain / loss from the derecognition of financial instruments recognized at FVTOCI	(1,092)	(43,173)
Net exchange rate gains and effects of agreed currency clause	527,825	356,453
Net gain / loss from hedging	7,334	7,387
Net gain / loss on impairment of financial assets and credit risk off-balance sheet items	(3,311,604)	(833,352)
Net gain / loss from derecognition of the financial instruments recognized at amortised costs	137,063	(313,424)
Other operating income	371,139	309,071
TOTAL NET OPERATING INCOME	**7,423,270**	**7,609,313**

Appendix 2. Income statement for the period (in 000 RSD) (Continued)

POSITION	Current year		Previous year
Wages, salaries and other personnel expenses	(3,324,178)		(2,783,653)
Amortisation costs	(982,244)		(764,703)
Other income	190,872		6,489,822
Other expenses	(4,534,150)		(4,655,038)
PROFIT / LOSS BEFORE TAX	**(1,226,430)**		**5,895,741**
Income tax	0		(48,900)
Profit on deffered taxes	128,698		351,315
Loss on deffered taxes	(81,723)		(215,286)
PROFIT / LOSS AFTER TAX	**(1,179,455)**		**5,982,870**

Appendix 3. Overview of credit risk exposure in balance sheet items (in 000 RSD)

POSITION	31. 12. 2020.	31. 12. 2019.
Cash and balances with Central Bank	33,251,589	40,303,963
Pledged financial assets	1,494,796	621,223
Securities	17,228,522	13,591,414
Loans and receivables from banks and other financial organizations	4,955,868	6,343,310
Loans and receivables from customers	169,993,155	141,602,332
Other assets	1,193,332	1,470,865
Commitments	31,895,182	24,060,432
Total	**260,012,444**	**227,993,539**

Appendix 4. Overview of interest rate risk on balance sheet items as at 31.12.2020 (in 000 RSD)

December 31, 2020.	Up to 1 month	from 1 to 3 months	from 3 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS						
Cash and balances with Central Bank	14,218,420	-	-	-	19,033,169	33,251,589
Pledged financial assets	190,508	1,177,302	-	-	126,987	1,494,796
Receivables under derivatives	6,601	14,244	4,012	5,064	-	29,921
Securites	1,402,880	2,870,446	6,627,583	6,286,486	41,128	17,228,522
Loans and receivables from banks and other financial organizations	1,988,465	851,369	-	-	2,116,033	4,955,868
Loans and receivables from customers	63,144,466	84,206,229	15,871,407	4,197,237	2,885,352	169,993,155
Other assets	-	-	-	-	871,813	871,813
TOTAL ASSETS	**80,951,339**	**89,119,590**	**22,503,002**	**10,488,786**	**25,074,482**	**227,825,664**
LIABILITIES						
Liabilities under derivatives	111,752	5,951	39,654	3,367	-	160,724
Deposits and other liabilities due to banks, other financial organizations and Central Bank	8,465,283	20,630,825	18,802,846	262,001	1,549,163	49,710,118
Deposits and other liabilities due to customers	56,948,724	7,602,962	7,291,273	1,430,321	79,838,564	153,111,844
Subordinated liabilities	-	1,175,802	-	-	1,239	1,177,041
Other liabilities	-	-	-	-	1,651,698	1,651,698
TOTAL LIABILITIES	**65,525,759**	**29,415,540**	**26,133,773**	**1,695,689**	**83,040,664**	**205,811,425**
Cumulated GAP as at:						
December 31, 2020.	**15,425,581**	**75,129,631**	**71,498,860**	**80,291,957**	**-**	**-**
December 31, 2019.	**(7,866,724)**	**57,552,801**	**48,928,892**	**62,646,928**	**-**	**-**

Appendix 5. Overview balance sheet assets and liabilities by currency as at 31.12.2020 (in 000 RSD)

December 31, 2020.	EUR	USD	Other currencies	Total FX	RSD	TOTAL
ASSETS						
Cash and balances with Central Bank	12,654,797	310,816	1,808,001	14,773,614	18,477,975	33,251,589
Pledged financial assets	126,986	190,508	-	317,494	1,177,302	1,494,796
Receivables under derivatives	-	-	-	-	29,921	29,921
Securities	2,352,525	-	-	2,352,525	14,875,997	17,228,522
Loans and receivables from banks and other financial organizations	4,244,385	147,879	427,455	4,819,719	136,149	4,955,868
Loans and receivables from customers	95,196,572	140,367	77,056	95,413,995	74,579,160	169,993,155
Other assets	36,437	(14)	(1,878)	34,545	837,268	871,813
TOTAL ASSETS	**114,611,702**	**789,556**	**2,310,634**	**117,711,892**	**110,113,772**	**227,825,664**
LIABILITIES						
Liabilities under derivatives	-	-	-	-	160,724	160,724
Deposits and other liabilities due to banks, other financial organizations and Central Bank	37,775,804	3,043,163	450,979	41,269,946	8,440,172	49,710,118
Deposits and other liabilities due to customers	73,636,240	2,715,916	4,307,541	80,659,697	72,452,147	153,111,844
Subordinated liabilities	1,177,041	-	-	1,177,041	-	1,177,041
Other liabilities	923,237	3,443	1,402	928,082	723,616	1,651,698
TOTAL LIABILITIES	**113,512,322**	**5,762,522**	**4,759,922**	**124,034,766**	**81,776,659**	**205,811,425**
Balance GAP (I) - (II)	**1,099,380**	**(4,972,966)**	**(2,449,288)**	**(6,322,874)**	**28,337,113**	**22,014,239**
Net off-balance	**(309,217)**	**4,984,868**	**2,442,075**	**7,117,726**	**(7,260,826)**	**(143,100)**
Net open foreign currency position as of: December 31, 2020.	**790,163**	**11,902**	**15,476**	**817,541**	**21,076,287**	**21,893,828**

Loans with a foreign currency clause are shown under foreign currency.

Appendix 6. Overview of the maturity structure of assets and liabilities of the Bank as at 31.12.2020 (in 000 RSD)

December 31, 2020.	Up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years	matured	No due date	Total
ASSETS								
Cash and balances with Central Bank	33,251,589	-	-	-	-	-	-	33,251,589
Pledged financial assets	-	740	-	1,176,562	-	-	317,494	1,494,796
Receivables under derivatives	6,601	14,244	4,012	5,064	-	-	-	29,921
Securities	1,402,880	2,870,446	6,627,582	6,286,486	-	-	41,128	17,228,522
Loans and receivables from banks and other financial organizations	4,136,954	765,224	28,997	1,642	-	17,415	5,636	4,955,868
Loans and receivables from customers	3,836,916	7,132,752	36,811,846	85,410,965	31,993,026	715,030	4,092,620	169,993,155
Other assets	459,838	355	-	32,000	-	352,555	27,065	871,813
TOTAL ASSETS	**43,094,778**	**10,783,761**	**43,472,437**	**92,912,719**	**31,993,026**	**1,085,000**	**4,483,943**	**227,825,664**
LIABILITIES								
Liabilities under derivatives	111,752	5,951	39,654	3,367	-	-	-	160,724
Deposits and other liabilities due to banks, other financial organizations and Central Bank	9,422,220	10,059,142	19,174,463	10,887,000	-	4,465	162,828	49,710,118
Deposits and other liabilities due to customers	132,399,493	8,725,645	8,064,591	2,350,663	372,900	249,314	949,238	153,111,844
Subordinated liabilities	-	1,239	-	-	1,175,802	-	-	1,177,041
Other liabilities	458,576	61,301	162,816	484,954	225,144	10,449	248,458	1,651,698
TOTAL LIABILITIES	**142,392,041**	**18,853,278**	**27,441,524**	**13,725,984**	**1,773,846**	**264,228**	**1,360,524**	**205,811,425**
Maturity gap as at:								
31. December 2020.	**(99,297,263)**	**(8,069,517)**	**16,030,913**	**79,186,735**	**30,219,180**	**820,772**	**3,123,419**	**22,014,239**
31. December 2019.	**(73,786,462)**	**(5,100,493)**	**6,763,834**	**67,338,212**	**27,517,198**	**1,019,015**	**(978,729)**	**22,772,575**

Appendix 7. Overview of actual indicators in accordance with the prescribed limits by the National Bank of Serbia

Indicator	Limit	31. 12. 2020.
	Minimum	
Regulatory capital	EУР 10,000,000	263,653,617
Capital adequacy ratios:		
- **Capital adequacy Common equity Tier I for the Bank**	Minimum 12.09%	18.11%
- **Capital adequacy Tier I for the Bank**	Minimum 9.07%	17.43%
- **Capital adequacy ratio for the Bank**	Minimum 6.79%	17.43%
Liquidity ratios:		
- **Daily liquidity indicator**	Minimum 0.8	1.51
- **Narrower liquidity indicator**	Minimum 0.5	1.37
Liquidity coverage ratio	Minimum 100%	130.62%
Foreign exchange ratio	Maximum 20%	2.35%
Concentration risk	Maximum 50%	18.10%
Exposure to a group of related parties	Maximum 25% of capital	24.12%
Banks investments in legal entities which are not in the financial sector	Maximum 60% of capital	30.74%
The sum of all large exposures in relation to the capital	Maximum 400%	95.89%

The Bank in 2020. has not violated any of the prescribed indicators.