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TRANSLATION

Independent Auditor's Report

To the Council of The Governor of Narodna banka Srbije

Opinion

We have audited the accompanying financial statements of Narodna banka Srbije (the "Bank"), which comprise:

- the balance sheet as at 31 December 2019,

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

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

and

- notes comprising a summary of significant accounting policies and other explanatory information (the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the financial statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional

Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the

Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

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

Auditor's Responsibility for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 auditors' report on the audit of the financial statements to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date

of our auditors' report on the audit of the financial statements. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the

underlying transactions and events in a manner that achieves fair presentation.

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

KPMG d.o.o. Beograd

Signed on the Serbian original

Nikola Đenić
Certified Auditor

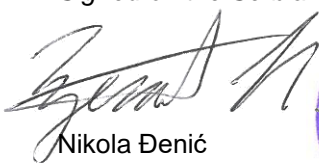
Beograd, 20 March 2020

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*However, if any questions arise related to interpretation of the information
contained in the translation, the Serbian version of the document shall prevail.
We assume no responsibility for the correctness of the translation of the Bank's financial statements.*

KPMG d.o.o. Beograd

Signed on the Serbian original



Nikola Đenić
Certified Auditor



Belgrade, 20 March 2020

TRANSLATION

NATIONAL BANK OF SERBIA

**Financial Statements for the
Year Ended December 31, 2019**

CONTENTS

	Page
Balance Sheet	2
Income Statement	3
Statement of Other Comprehensive Income	4
Statement of Changes in Equity	5
Cash Flow Statement	6
Notes to the Financial Statements	7 – 84

BALANCE SHEET**As at 31 December 2019****(in RSD thousand)**

	Note	December 31, 2019	December 31, 2018
ASSETS			
Cash and assets held with banks	16, 3.4	339,485,874	336,376,900
Gold and other precious metals	17, 3.5	158,084,189	87,752,490
Deposits	18, 3.3	207,598,412	145,221,006
Receivables for derivatives	3.3	5,259	43,481
Securities	19, 3.3	884,779,127	783,908,048
Loans and placements	20, 3.3	982,245	1,011,133
IMF membership quota and SDR holdings	21, 3.3	96,333,002	95,504,052
Intangible assets	22, 3.7	154,306	155,940
Property, plant and equipment	22, 3.7	19,125,957	18,848,674
Investment property	22, 3.7	407,692	407,692
Other assets	23	5,079,908	4,897,678
TOTAL ASSETS		<u>1,712,035,971</u>	<u>1,474,127,094</u>
LIABILITIES AND EQUITY			
Liabilities			
Liabilities under derivatives	3.3	4,809	39,851
Deposits and other liabilities to banks and other financial organisations	24	651,514,126	583,320,898
Deposits and other liabilities to Government and other depositors	25	397,401,344	284,237,166
Liabilities to the IMF	26, 3.3	96,448,924	95,594,200
Provisions	27, 3.11	1,713,081	1,294,195
Current tax liabilities	28, 3.9	533,905	426,343
Dinars in circulation	29	209,567,662	182,611,179
Other liabilities	30	2,037,178	2,110,458
Total liabilities		<u>1,359,221,029</u>	<u>1,149,634,290</u>
Equity			
State-owned capital		178,253,299	171,128,873
Reserves		137,331,122	122,782,727
Retained earnings		37,230,521	30,581,204
Total equity	31	<u>352,814,942</u>	<u>324,492,804</u>
TOTAL LIABILITIES AND EQUITY		<u>1,712,035,971</u>	<u>1,474,127,094</u>

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

These financial statements were approved by the Governor:

Jorgovanka Tabaković, PhD
Governor

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INCOME STATEMENT

For the period from 1 January to 31 December 2019

(in RSD thousand)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Interest income		13,819,737	12,047,314
Interest expenses		<u>(4,791,022)</u>	<u>(4,853,928)</u>
Net interest income	4, 3.1	9,028,715	7,193,386
Fee and commission income		5,278,587	5,346,190
Fee and commission expenses		<u>(399,376)</u>	<u>(561,999)</u>
Net fee and commission income	5, 3.1	4,879,211	4,784,191
Net gains from financial instruments measured at fair value through profit and loss	6	238,803	10,049
Net losses from derecognition of financial instruments measured at fair value through other comprehensive income	7	(1,648,710)	(870,199)
Net exchange rate gains and from contractual currency clause	8, 3.2	24,557,536	17,398,639
Net income from decrease in impairment of financial assets	9, 3.3, 32	107,047	2,290,574
Other operating income	10	6,640,257	6,579,407
Salaries, salary compensations and other personal expenses	11, 3.10	(4,836,290)	(4,248,873)
Depreciation costs	12, 3.7	(1,041,398)	(1,728,201)
Other income	13	4,114,586	4,973,278
Other expenses	14	<u>(4,275,331)</u>	<u>(5,316,602)</u>
PROFIT BEFORE TAX		37,764,426	31,065,649
Income tax	28, 3.9	<u>(533,905)</u>	<u>(426,343)</u>
PROFIT AFTER TAX	31	<u>37,230,521</u>	<u>30,639,306</u>

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STATEMENT OF OTHER COMPREHENSIVE INCOME**In the period from 1 January to 31 December 2019****(in RSD thousand)**

	<u>2019</u>	<u>2018</u>
Profit for the period	37,230,521	30,639,306
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase/(Decrease) in revaluation reserves based on intangible assets and fixed assets	8,559	(1,761,865)
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	778,612	387,718
Actuarial losses	(245,197)	(19,183)
Components of other comprehensive income that may be reclassified to profit or loss:		
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	<u>(181,890)</u>	<u>(3,031,156)</u>
Other comprehensive income for the period	<u>360,084</u>	<u>(4,424,486)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>37,590,605</u>	<u>26,214,820</u>

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019.

(in RSD thousand)

	State owned capital	Special reserves	Revaluation reserves	Fair Value Reserves	Actuarial gains (losses)	Retained earnings (losses)	Total
Balance as at 1 January, 2018	171,128,873	187,857,209	15,665,734	6,737,581	68,688	(83,145,636)	298,312,449
First time adoption of IFRS 9	-	-	-	23,637	-	(77,958)	(54,321)
Corrected balance at the beginning of year	171,128,873	187,857,209	15,665,734	6,761,218	68,688	(83,223,594)	298,258,128
Coverage of the loss from previous year (Note 31)	-	(83,145,636)	-	-	-	83,145,636	-
Decrease in revaluation reserves based on intangible assets and fixed assets	-	-	(1,761,865)	-	-	19,856	(1,742,009)
Increase in fair value reserves of equity instruments measured at fair value through other comprehensive income	-	-	-	387,718	-	-	387,718
Actuarial losses	-	-	-	-	(19,183)	-	(19,183)
Decrease in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	(3,031,156)	-	-	(3,031,156)
Net profit for the current year	-	-	-	-	-	30,639,306	30,639,306
Balance as at 31 December, 2018	171,128,873	104,711,573	13,903,869	4,117,780	49,505	30,581,204	324,492,804
Balance as at 1 January, 2019	171,128,873	104,711,573	13,903,869	4,117,780	49,505	30,581,204	324,492,804
Distribution of profit from previous year (Note 31)	7,124,426	14,188,311	-	-	-	(30,581,204)	(9,268,467)
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	8,559	-	-	-	8,559
Increase in fair value reserves of equity instruments measured at fair value through other comprehensive income	-	-	-	778,612	-	-	778,612
Actuarial losses	-	-	-	-	(245,197)	-	(245,197)
Decrease in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	(181,890)	-	-	(181,890)
Net profit for the current year	-	-	-	-	-	37,230,521	37,230,521
Balance as at 31 December, 2019	178,253,299	118,899,884	13,912,428	4,714,502	(195,692)	37,230,521	352,814,942

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CASH FLOW STATEMENT**In the period from 1 January to 31 December 2019****(in RSD thousands)**

	2019	2018
CASH INFLOW FROM OPERATING ACTIVITIES		
Interest receipts	14,372,474	12,040,188
Fee and commission receipts	5,363,829	3,773,309
Inflows from sales of products and services (Institute for Manufacturing Banknotes and Coins)	7,483,851	6,729,912
Inflows from other operating activities	3,723,447	5,891,639
Receipts from dividends and profit sharing	103,539	98,867
Cash inflow from operating activities	31,047,140	28,533,915
Interest payments	(6,540,126)	(6,558,840)
Fee and commission payments	(503,196)	(561,999)
Payments for operating expenses	(10,678,589)	(16,494,237)
Cash outflow from operating activities	(17,721,911)	(23,615,076)
Net inflow in deposits received	162,535,160	136,258,926
Net (outflow)/inflow in loans and placements	(63,154,978)	19,658,233
Net (outflow) in securities and other financial assets not intended for investment	(104,492,117)	(47,962,165)
Net increase in loans and deposits received	8,213,294	112,873,833
Income tax paid	(426,343)	(454,479)
Payment of the distributed result-transfer to the budget of the Republic of Serbia	(9,268,467)	-
Net cash outflow from operating activities	(1,481,516)	112,419,354
CASH FLOW FROM INVESTING ACTIVITIES		
Inflows from sales of intangible assets, property, plant and equipment	203	-
Outflow for the sale of intangible assets, property, plant and equipment	(1,251,591)	(1,346,369)
Net cash outflow from investing activities	(1,251,388)	(1,346,369)
CASH FLOW FROM FINANCING ACTIVITIES		
Net (outflow)/inflow from short-term borrowings	(954,373)	304,330
Net cash (outflow)/inflow from financing activity	(954,373)	304,330
Net (decrease)/increase in cash and cash equivalents	(3,687,277)	111,377,315
Cash and cash equivalents at the beginning of the period	344,451,334	218,126,161
Foreign exchange gains/(losses), net	6,839,754	14,947,858
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 2f)	347,603,811	344,451,334

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1. BANK'S ESTABLISHMENT AND ACTIVITY

The National Bank of Serbia (hereinafter: the "Bank") draws its origins to the establishment and commencement of operations of the Privileged National Bank of the Kingdom of Serbia in 1884. In 1920 the Privileged National Bank of the Kingdom of Serbs, Croats and Slovenes was established, and in 1929 the Bank changed its official name to the National Bank of the Kingdom of Yugoslavia. Since 1946 the Bank performed its functions under the name of the National Bank of Yugoslavia (hereinafter: the "NBY"), as the central monetary institution of the FNRJ, which was later renamed into the Socialist Federative Republic of Yugoslavia (hereinafter: the SFRY), and until dissolution of SFRY under the name of National Bank of the Federal Republic of Yugoslavia. In accordance with the Law on the Implementation of the Constitutional Charter of the State Union of Serbia and Montenegro that came in effect on February 4, 2003, the Bank continued to perform its function of the central bank of the Republic of Serbia (hereinafter: the "RS").

The position, organization, authority and functions of the National Bank of Serbia, as well as its relation to the authorities of the RS and international institutions, are defined by the Law on the National Bank of Serbia (Official Gazette of RS, nos. 72/2003 and 55/2004, 85/2005-other law and 44/2010, 76/2012, 106/2012, 14/2015, 40/2015 – Constitutional Court decision and 44/2018, (hereinafter: the Law) and the Constitution of the RS (Official Gazette of RS, no 98/2006).

The Bank is independent in the performance of functions determined by the Law and other laws and is subject to the supervision of the National Assembly to which it is accountable for its work.

The primary objective of the Bank shall be to achieve and maintain price stability. In addition to its primary objective, the Bank shall also strive towards maintaining financial system stability. Without prejudice to its primary objective, the Bank shall support the pursuance of economic policy of the Government of the Republic of Serbia operating in accordance with the principles of market economy.

The Bank also performs the following functions:

- Determines and implements monetary and foreign exchange policies;
- Manages state foreign currency reserves;
- Establishes and implements activities and measures falling under its remit that relate to the maintaining and strengthening of financial stability;
- Issues banknotes and coins and manages cash flows;
- Regulates, oversees and promotes uninterrupted functioning of internal and external payment operations, in accordance with Law;
- Issues and revokes operating licenses to banks, supervises bank solvency and legal compliance of banking operations, and performs other activities in accordance with the law governing banks;
- Issues and revokes licenses, i.e. authorization for carrying out insurance operations, supervises such operations and performs other duties in line with the law governing the field of insurance;
- Issues and revoke licenses, i.e. authorization for carrying out finance lease operations, supervises such operations and performs other duties in line with the law governing finance lease operations;
- Issues and revokes licenses, i.e. authorization for carrying out the operations of a voluntary pension fund, supervises such operations and performs other duties in line with the law governing voluntary pension funds;
- Issues and revokes licenses, i.e. authorization for carrying out the operations of payment services and issuance of electronic money, supervises such operations and performs other duties in line with the law governing payment services;

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1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)

- Protects the rights and interests of the beneficiaries of services rendered by banks, leasing companies, insurance companies and companies managing voluntary pension funds in accordance with the law;
- Determines whether the conditions for initiating the restructuring procedure in respect of banks and/or members of a banking group are met, to conduct the restructuring procedure, decides on the tools and measures to be applied and performs other activities relating to bank restructuring, in accordance with the law governing banks;
- Issues and revokes licenses to payment system operators, supervises such operations and performs other duties in line with the law governing payment services;
- Issues and revokes licenses for performing exchange transactions, supervises exchange and foreign exchange operations and performs other activities, in accordance with the law regulating foreign exchange operations;
- Performs specific statutory operations for the Republic of Serbia without compromising its own autonomy and independence;
- Performs other tasks within its scope of authority, in accordance with Law.

The governing bodies of the Bank are: the Executive Board, the Governor and the Council of the Governor.

The Executive Board, comprised of the Governor, Director of Administration for Supervision of Financial Institutions (hereinafter: "Administration for Supervision") and Vice-Governors, determines monetary and foreign exchange policies and establishes measures and activities for the purpose of strengthening stability of the financial system.

The Governor represents and acts as the agent of the Bank, manages the Bank's operation and is responsible for the implementation of decisions of the Executive Board and the Council, proposes regulations, general and individual acts to be enacted by the Executive Board and the Council, unless otherwise provided by the Law, enacts regulations, general and individual acts falling within the scope of authority of the National Bank of Serbia, which are not assigned by the Law to the authority of the Executive Board and the Council, regulates the internal organization of the National Bank of Serbia and the classification of jobs in the National Bank of Serbia, as well as labour relations of employees in the National Bank and performs other tasks defined by the Law and other legislation. The Governor shall be nominated by the President of the Republic and appointed by the National Assembly, for a six-year renewable term of office. The Bank has between two and four Vice-Governors, who are elected by the National Assembly, for a six-year renewable term of office at the Governor's proposal.

Among other matters, the Council of the Governor adopts the Statute at the recommendation of the Executive Board, enacts the financial plan of the Bank, adopts the annual financial statements of the Bank, selects an external auditor, considers and discusses the external (independent) auditor's report and monitors the implementation of the auditor's recommendations throughout the National Bank of Serbia. The Council of the Governor consists of five members including the Chairman, who are appointed by the National Assembly at the proposal of the National Assembly committee in charge of financial affairs. The Council members are elected for a five-year renewable term of office and are not employed with the Bank.

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1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)

The Bank is a legal entity headquartered in Belgrade, at 12 Kralja Petra Street. The activities of the National Bank of Serbia as determined by the law and other regulations are performed through the Bank's basic organizational units, branch offices in Belgrade, Novi Sad, Niš, Kragujevac and Užice and the Institute for Manufacturing Banknotes and Coins - Topčider (hereinafter: "ZIN").

As at December 31, 2019 the Bank had 2,390 employees (December 31, 2018 2,348 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

a) Statement of Compliance with the International Financial Reporting Standards

The accompanying financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS).

b) Basis of Measurement

Financial statements are prepared at the historical cost principle, with exception of the following items:

- Gold and other precious metals, which are stated at fair value;
- Financial assets at fair value through profit and loss;
- Financial assets at fair value through other comprehensive income;
- Land and properties, which are stated at revalued value;
- Investment properties, which are stated at fair value;
- Works of art and museum objects and numismatic collection, which are stated at fair value;
- Provisions for retirement benefits and jubilee awards, which are stated at the present value of the future liabilities for retirement benefits and jubilee awards;
- provisions for litigation stated at estimated value of possible court outcomes;
- Foreign currency swaps, which are stated at fair value.

c) Use of Estimates

Preparation of financial statements in accordance with IFRS requires the Bank's management to use certain estimates in the application of the accounting policies. Areas that are subject to estimates of greater significance to the financial statements of the Bank are presented in Note 3.11.

d) Functional and Presentation Currency

The Bank's financial statements are stated in thousands of dinars (RSD). The Dinar is the Bank's functional currency and the official presentation currency in the Republic of Serbia

e) New Standards, Interpretations and Revisions to Issued Standards

The following standards, interpretations and amendments to the published standards have entered into force for the accounting period beginning on or after January 1, 2019:

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

e) New Standards, Interpretations and Revisions to Issued Standards (Continued)

- Amendment to IFRS 9 - "Prepayment Features with Negative Compensation", to be applied for annual periods beginning on or after January 1, 2019, with early application permitted;
- IFRS 16 "Leasing", which eliminates the difference between operational and financial leasing, applied for annual periods beginning on or after January 1, 2019;
- IFRIC 23 interpretations – „Uncertainty regarding income tax treatment", applied for annual periods beginning on or after January 1, 2019;
- Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement, applied for annual periods beginning on or after January 1, 2019;
- Annual Improvement Letter IFRS 2015 - 2017 - amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Taxes on Profit" and IAS 23 "Borrowing Costs", applied for annual periods beginning on or after January 1, 2019;
- Amendments to IAS 28 - Investments in Associates and Joint Ventures, applied for annual periods beginning on or after January 1, 2019.

The Bank's management considered the impact of these standards and interpretations on the Bank's financial statements. Having in mind the nature of the Bank's operations, the above mentioned standards, interpretations and amendments to standards did not have material effect on the financial statements of the Bank.

By the balance sheet date, the following standards, interpretations and amendments to the published standards were issued, but were not applied:

- Amendments to IFRS 9, IAS 39 and IFRS 7- „Benchmark interest rate reform'' as a first reaction to the potential effects that IBOR reform could have on financial reporting. The amendments applying to annual periods beginning on or after January 1, 2020;
- Amendment to IFRS 3 – definition of business applying to annual periods beginning on or after January 1, 2020;
- Amendments to IAS 1 and IAS 8, definition of the concept of materiality applying to annual periods beginning on or after January 1, 2020;
- Amendments to references to the conceptual framework of the IFRS standards, applying to annual periods beginning on or after January 1, 2020. Amendments to the conceptual framework for reporting becomes more comprehensive, in order to provide the Board of the International Accounting Standards a complete set of tools for setting standards. It covers all aspects of the standard starting from the objective of financial reporting, through presentations to the disclosure;

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

e) New Standards, Interpretations and Revisions to Issued Standards (Continued)

- Amendments to IFRS 10 „Consolidated Financial Statements” and IAS 28 „Investments in Associates and Joint Ventures” - sale or contribution of investors' funds to associates or joint ventures, available for optional adoption / effective date deferred indefinitely;
- IFRS 17 "Insurance Contracts", applied for annual periods beginning on or after January 1, 2021.

The Bank's management is currently considering the impact of these standards and interpretations on the Bank's financial statements, as well as the date of their entry into force. These standards, interpretations and amendments to the published standards will not, according to the assessment, have a significant impact on the Bank's financial statements in the period after their application.

f) Cash flow statement

The differences between cash and cash equivalents position at the end of the period in the Cash Flow Statement from 1 January to 31 December 2019 and cash and cash equivalents position in the Balance Sheet as at 31 December 2019 are presented in the following table:

	Balance Sheet as at December 31, 2019-cash and cash equivalents	Thousands of RSD Cash Flow Statement In period from 1 January to December 31, 2019-cash and cash equivalents at the end of period	Difference
Cash in hand (Note 16)	196,765,171	196,765,171	-
Current accounts with banks, net amount (Note 16)	142,720,703	142,720,703	-
Funds in SDR (Note 21)	-	8,117,937	(8,117,937)
Total	339,485,874	347,603,811	(8,117,937)

The differences between cash and cash equivalents position at the end of the period in the Cash Flow Statement from 1 January to 31 December 2018 and cash and cash equivalents position in the Balance Sheet as at 31 December 2018 are presented in the following table:

	Balance Sheet as at December 31, 2018-cash and cash equivalents	Thousands of RSD Cash Flow Statement In period from 1 January to December 31, 2019-cash and cash equivalents at the end of period	Difference
Cash in hand	177,673,122	177,673,122	-
Current accounts with banks, net amount	158,703,778	158,703,778	-
Funds in SDR	-	8,074,434	(8,074,434)
Total	336,376,900	344,451,334	(8,074,434)

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2. BASIC OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

g) Comparative data

Accounting policies and estimates relating to the recognition and valuation of assets and liabilities used in the preparation of these financial statements are consistent with accounting policies and estimates made in preparing the financial statements of the Bank for 2018. In the interest of better presentation, the Bank has adjusted the structure of comparative data in certain segments as a part of disclosures made through the notes to the financial statements as at December 31, 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

3.1. Interest, Fee and Commission Income and Expenses

When calculating interest income or expense based on a financial asset or a financial liability, the effective interest rate is applied to the gross carrying amount of the asset or the amortized cost of liabilities. The gross carrying amount of the financial asset is the amortized cost of the financial asset before adjusting for the amount of the impairment. The amortized cost of a financial asset is the value of a financial asset at initial recognition, minus the principal repayment, increased or decreased by the amount of cumulative amortization using the effective interest method of any difference between the value of the financial asset at initial recognition and the amount at maturity and adjusted for the amount of impairment.

If the financial asset is not credit impaired, interest income is calculated using the effective interest rate on the amortized cost of a financial asset.

Interest income from financial assets that subsequently have become credit-impaired financial assets after initial recognition are calculated by applying the effective interest rate on the amortized cost of that asset.

Interest income from purchased or originated credit-impaired financial assets is calculated using the effective interest rate adjusted for credit risk on the amortized cost of that asset.

Fee and commission income from banking services are recognized as related services performed and fee and commission expenses are recognised as related services are received.

3.2. Foreign Currency Translation

Business transactions performed in foreign currencies whose exchange rates are officially published by the Bank, are translated into dinars by applying the official middle exchange rates effective as at the transaction date, whereas for currencies whose exchange rates are not officially published by the Bank, recalculation is performed by applying the adequate exchange rates of the Bank effective as at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into dinars by applying the official middle exchange rate prevailing at the statement of financial position date (if the currency rate is published by the Bank in the official exchange rate list) or at the appropriate rate of the Bank (for foreign currencies which are not published in the official exchange rate list).

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 exchange rate gains/losses and gains/losses from agreed currency clause. The structure of monetary assets and liabilities is presented in the framework of the foreign currency risk analysis in Note 32.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

3.3. Financial instruments

The Bank classifies its financial assets into the following categories:

- financial assets carried at amortized cost
- financial assets carried at fair value through other comprehensive income and
- financial assets carried at fair value through profit and loss.

The classification depends on the business model in which the assets are held and characteristic of cash flows related to those financial assets. Financial liabilities are classified as financial liabilities that are measured at amortized cost and financial liabilities that are carried at fair value through profit and loss.

The business model in which financial assets are held represents the way in which the Bank manages those funds in order to generate cash flows from a financial asset. The objective of the business model may be the collection of contractual and other fixed cash flows and cash flows from the sale of that asset or other, and the type of business model within which certain financial assets are held is determined on the basis of:

- policies and objectives related to certain financial assets (implementation of monetary and foreign exchange policies and other regulations and activities within the competence of the National Bank of Serbia, liquidity management, realization of manual compliance of financial assets and liabilities, realization of interest income, realization of income on the basis of change in fair value financial resources, etc.),
- the frequency, volume and point of sale of financial assets in the previous period, the reasons for these sales and expectations regarding future sales activities,
- the method of assessing the effectiveness of management and the manner of reporting in relation to financial assets,
- types of risks that affect certain financial assets and ways of managing these risks.

Financial assets are classified in the category of financial assets that are carried at amortized cost if they are applied to a business model whose primary objective is the collection of contracted and other established cash flows, and if the cash flows that are incurred consist exclusively of principal payment and interest on the outstanding principal amount on a fixed date.

Financial assets are classified in the category of financial assets carried at fair value through other comprehensive income if they are applied to a business model whose basic objectives and collection of contracted cash flows and sales and if the cash flows that are incurred consist exclusively of principal and interest payments on the outstanding amount of principal on a fixed date.

All other financial assets are measured at fair value through profit and loss.

The management determines the classification of assets and liabilities at initial recognition, and any subsequent reclassifications are made if certain specific conditions are met.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

3.3. Financial instruments (Continued)

Financial assets at fair value through other comprehensive income

Financial assets carried at fair value through other income are securities designated as securities carried at fair value through other comprehensive income at initial recognition and which are defined as financial assets carried at fair value through other results. Financial assets carried at fair value through other income refer to government bonds, securities of the public sector, as well as securities with high quality collateral, as well as government discounted securities and in the balance sheet are carried at fair value on balance sheet date as quoted in the financial market.

In addition to these securities, for the participation in the capital of international financial institutions on 31 December 2019, The Bank has opted for accounting for them at fair value through other comprehensive income. This choice was carried out on the basis of a single instrument at the time of initial recognition and cannot be revoked.

Also, on the date of initial recognition, the Bank may irrevocably classify an asset as an asset carried at fair value through profit and loss, although it meets the requirements of valuation at amortized cost or fair value measurement through other results, and only in cases where the objective is to eliminate or significantly reduce accounting mismatches that would otherwise arise.

The effects of changes in fair value are recorded within equity as a fair value reserve. During the holding of securities, the Bank determines the interest using effective interest rate and records revenues from the collection of coupons within the position of interest income.

For equity investments that are carried at fair value through other income, changes in fair value after initial recognition are reported in equity under reserves based on fair value and can never be recognized through profit or loss, even at the time of sale. Accumulated gains or losses recognized in the other result are transferred to retained earnings upon the expiry of the recognition of the investment.

Equity investments that are recorded as assets carried at fair value through other income are not subject to impairment. The effects of changes in foreign exchange rates are included within the capital as a fair value reserves. Dividends are recorded under other operating income in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are valued at amortized cost less impairment charges. Loans are stated separately in position Loans and placements, while receivables are presented in other assets.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

3.3. Financial instruments (Continued)

Financial assets carried at amortized cost

Financial assets carried at amortized cost are investments in debt securities where the Bank has a firm intention and the ability to hold these securities until maturity. These securities are valued at amortized cost less impairment costs.

Deposits

Deposits include time deposits in accounts with foreign banks with adequate investment rating and other deposits are stated at amortized cost.

Financial liabilities at amortized cost

Financial liabilities for repo transactions are measured at amortized cost. The difference between the cost and the redemption value is recognized in the income statement on the basis at the effective interest method.

Swap transactions

The Bank organizes a swap of auctions of the sale or purchase of foreign currency, which are a regular instrument for securing the foreign exchange, i.e. dinar liquidity of the banking sector. The aim of their organization was to encourage the development of the interbank swap of foreign exchange trading and the development of the market of instruments for protection against the risk of changing the foreign exchange rate.

At the balance sheet date, the Bank values swaps at fair value through profit and loss. The positive fair value of swaps is recognized as an asset within the derivative receivables, the negative as an obligation under the derivative liability, and the effects of the change in fair value are recognized in the income statement within position net profit on financial instruments carried at fair value through the income statement.

Membership Quota in the International Monetary Fund and special drawing rights and Obligations under the International Monetary Fund

Assets and liabilities to the International Monetary Fund expressed in special drawing rights are estimated at the special drawing rights rate published by the International Monetary Fund - using the official middle exchange rate of the USD dinar that is valid on the appropriate date. Transactions in Special Drawing Rights are converted into Dinars using the official middle exchange rate of the National Bank of Serbia at the time of the transaction.

Date of recognition and fair value

Regular purchases and sales of placements are recognized at the date of the transaction - the date on which the Bank pays for the purchase or receives funds from the sale of assets or at settlement date. All placements, except financial assets at fair value through profit and loss, are initially recognized at fair value plus transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

3.3. Financial instruments (Continued)

Date of recognition and fair value (continued)

The fair value of financial assets quoted on the stock exchange is determined on the basis of fair values. In the case of instruments for which there is no active market (not quoted on the stock exchange), the Bank determines their fair value based on an estimate using information on recent transactions on the market, using the discounted cash flow method or using the "option pricing" model.

Reclassification of financial assets

Reclassification of financial assets is carried out in the case of a change in the business model within which they are held. The effects of the reclassification of financial assets from the category measured at amortized cost and at fair value through other comprehensive income into the category of financial assets carried at fair value through profit and loss are reported as net gain/(loss) under reclassification of financial assets in the income statement, while other reclassifications, including their effects, are recorded within the positions of balance sheet.

Modification of financial instruments

Modification of financial instruments is a change in the established (contracted, prescribed or otherwise in accordance with the regulations established) cash flows of a financial instrument arising from renegotiation or otherwise. If, when modifying the financial instrument, it is estimated that the cash flows have not changed significantly, recognition of such financial instrument continues at modified amount, and the difference between the book value and the modified amount is recorded in the income statement. Otherwise, the financial instrument is derecognized and a new financial instrument is recognized. In assessing whether cash flows are substantially modified, the Bank uses the following criteria:

- discounted (present) value of cash flow on changed terms (modified value) changed by 10% or more in relation to discounted (present) value of remaining cash flow on terms of original financial instrument, or
- significantly changed conditions of the original financial instrument in accordance with the particular circumstances of the individual case, regardless of the extent to which the cash flow was changed (change of debtors, change of currency, introduction of the possibility of conversion of claims into equity securities, change of fixed interest rate into variable and reversed and changes in classification of financial instruments).

Impairment of financial assets

Impairment of financial assets (allowance for expected credit losses) is carried out at each balance sheet date, for the amount expected credit losses of financial assets carried at amortized cost and financial assets carried at fair value through other comprehensive income. The expected credit loss is the amount of the present value of the estimated losses weighted by the risk of default.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

3.3. Financial instruments (Continued)

Impairment of financial assets (Continued)

The carrying amount of financial assets is decreased indirectly through the allowance account and is recorded within net income from decrease in impairment/(expenses) on impairment of financial assets. If, during next year, there is a decrease in the amount of recognized impairment loss, the previously recognized impairment loss is reduced by adjusting the allowance account and the amount of the adjustment is recognized in the income statement.

Impairment of financial assets is explained in detail in Note 32.

Write-offs of financial assets

Financial assets are written off directly in whole or in part, when there is no reasonable expectation of recovering a financial asset, either in whole or in part, as in the case where it is established that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out on an individual basis.

Write-offs of financial assets are disclosed in the income statement as net income from decrease in impairment/(expenses) on impairment of financial assets, while financial assets that are written off and which are still subject to collection are recorded as off-balance sheet items.

Derecognition

Financial assets cease to be recognized when the Bank loses control over the contractual rights over these instruments, which occurs when the rights to use the instruments are realized, expired, abandoned or transferred. The financial liability ceases to be recognized when the liability ceases to exist.

Offsetting of financial assets

The financial asset and financial liabilities are set off and the net balance is presented in the balance sheet only if there is a legal right to carry out offset and if there is an intention of the Bank to make the collection of funds and payment of liabilities in the net amount or to simultaneously collect funds and settle liabilities. Revenues and expenses are presented in the book on the net basis if the result (effect) of the offset reflects the substance of the transaction they originated from.

3.4. Cash and current accounts with banks

Cash and cash equivalents include cash and balances on current accounts. Cash and current accounts due from banks are measured at amortized cost.

3.5. Gold and other precious metals

Gold and other precious metals are measured at fair value at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

3.5. Gold and other precious metals (Continued)

Precious metals, which are part of the foreign exchange reserves, were estimated at the price of gold and silver in the day-to-day fixing at the London Bullion Market Association, using the official US dollar average dinar exchange rate valid on the last day of the month, or on the basis of the price Platinum & Palladium Market Association, London fixing, using the official mid-dinar exchange rate for the US dollar that was valid on the last day of the month.

The effects of changes in the fair value of gold and other precious metals that are part of the foreign exchange reserves are presented in the profit and loss account, as gain / loss on the basis of exchange differences and the effects of the contractual currency clause.

The Bank assessed the cost of affinity with the balance as of December 31, 2019, in order to examine the material significance of the estimated amounts to the total financial statements and to consider the potential need to adjust the fair value of gold and other precious metals. Estimated cost of affinity on December 31, 2019, in the amount of RSD 153,325 thousand (December 31, 2018: RSD 144,409 thousand), does not represent a materially significant amount in the sense of IAS 8 "Accounting Policies, Changes in Accounting Policies and Errors".

3.6. Inventories

The Bank's inventories comprise materials, work in progress and finished products of ZIN mostly, as well as precious metals used for making commemorative coins, and ZIN products intended for the market. These inventories are stated at the lower of cost and net realizable value.

3.7. Property, plant, equipment, investment property and intangible assets

Plant, equipment and intangible assets are stated at cost less any allowance for impairment. The Bank applied the allowed alternative method of measuring real estate that it uses, a part of other fixed assets (works of art and museum values) and parts of equipment (period furniture) at the revalued value.

The basic assumptions for estimating the value of real estate used and investment property are explained in Note 22.

An increase in the revalued value of the land that is recorded in the Bank's bookkeeping records, ie the recording of the difference in the appraised value and present carrying amount is disclosed through the increase in revaluation reserves. Decrease in value based on revaluation is recorded by a proportional decrease in cost and accumulated amortization of fixed assets, and an increase in value based on revaluation - in proportion to the increase in cost and accumulated amortization of fixed assets.

The amounts of accrued revaluations are recorded in favour of the total remaining results, for the positive effects of the estimation, and are accumulated on the accounts of revaluation reserves within the capital. The negative effects of the assessment are recognized as the expense of the profit and loss account, unless the revaluation reserve has been formed for the specific asset in the previous periods, in which case the negative effects are recognized in the balance of the total other comprehensive income, to the level of previously formed revaluation reserves. Positive effects of the valuation are recognized in favour of the profit and loss account only up to the amount of previously recognized negative valuation effects the event that individual items in previous periods had a negative effect of the appraisal recognized at the expense in the profit and loss account.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Property, plant, equipment, investment property and intangible assets (Continued)

Investment property is valued at fair value. The effects of the change in fair value are disclosed at the expense or in favour of the profit and loss account within other income or other expenses.

Calculation of depreciation of property, plant and equipment and intangible assets begins when these assets are put into use. Depreciation is calculated equally on the cost of property, plant and equipment using the following annual rates, which were not changed during 2019, with a view to completely disposing of assets during their useful life:

Real estate	2%
Computers	25%
Furniture and other equipment	3.34% - 20%
Motor vehicles	14.29% - 20%
Intangible assets	25% i.e. the deadline prescribed by the contract

The cost of repairs and maintenance of property, plant and equipment generated to preserve the asset's useful life is recognized as an expense at the time of formation. Capitalization of investment costs is permitted only if it increases or extends the use value of the assets.

The gains arising from the sale of property, plant and equipment are credited to other operating income. The losses incurred in the disposal and disposal of property, plant and equipment are recorded at the expense of other expenses. Revaluation reserve on disposal and write-offs of assets transferred to retained earnings.

The Law on Public Property prescribes that the Government of the Republic of Serbia decides on the disposal of immovable property used by the Bank and the establishment of a mortgage on such real estate.

3.8. Funds for operations on behalf of third parties

Funds for transactions in the name and for the account of third parties, which are managed by the Bank for remuneration, are not included in the balance sheet of the Bank, but are carried out within off-balance sheet items.

3.9. Corporate Income Tax

Current taxes

The Bank is a tax payer in accordance with the provisions of the Law on Corporate Income Tax of the Republic of Serbia and the Regulations on the Contents of the Tax Balance for Non-Profit Organizations - Taxpayers of Corporate Taxes, explained in more detail in Note 28.

Deferred taxes

Deferred income taxes are calculated according to the balance sheet on all temporary differences on the balance sheet date between the present value of assets and liabilities, in the financial statements, and their values for purposes of taxation. The Bank does not account for and does not disclose deferred taxes due to the absence of temporary differences.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Employee Benefits

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

For short-term employee benefits, the Bank recognizes within expenses the undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered.

For long-term benefits, the Bank recognizes a discounted amount of fees that are expected to be paid in exchange for the services provided by employees. The Bank implements a defined remuneration plan for employees in accordance with internal acts, according to which the employee is entitled to severance pay in the amount of three times the earnings he earned for the month preceding the month in which his employment is terminated or in the amount of three times the average monthly salary per employee paid in for the month preceding the month in which his employment is terminated, depending on which of these two amounts is more favourable.

The last estimate of the present value of liabilities based on the established compensation plan was made as of December 31, 2019.

The Bank uses the best possible estimates of the variables when determining the total cost of provisioning for termination benefits. The basic assumptions of the assessment are explained in Note 27.

In the financial statements of the Bank as at December 31, 2019, provision was made on the basis of the estimated present value of retirement funds for retirement after fulfilled conditions, as well as the provision based on the estimated present value of jubilee awards. The Bank applied the actuarial method of lending to the projected unit for determining the present value of its liabilities and all actuarial assumptions, primarily demographic (mortality and disability), in accordance with IAS 19 – “Employee Benefits”.

Actuarial gains and losses and costs of previously performed services are recognized in the income statement when they occur, while actuarial gains and losses on retirement benefits are recognized in the statement of other comprehensive income.

Payments for unused annual holidays from the current year represent short-term liabilities of the Bank. In the financial statements of the Bank as at December 31, 2019, provision was made for funds for the payment of compensation for the days of unused annual leave for 2019, which employees did not use during 2019. The Bank's obligation shall cease if the employee does not use the holiday until June 30 of the following year. The bank is obliged to pay compensation for damage based on unused annual leave only in case of unused vacation in case of termination of employment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Summary of Key Accounting Estimates and Assumptions

The presentation of the financial statements requires the Bank's management to use best estimates and reasonable assumptions that affect assets and liabilities amounts as well as disclosures of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the reporting period. These estimations and assumptions are based on information available as at the date of preparation of the financial statements. Actual amounts may vary from these estimates.

Estimates and assumptions are subject to constant review. Changes to accounting estimates are recognized in the period when they are made if their impact is limited to that period or in future periods, in case when the change impacts future periods as well.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets

Expected credit losses of financial assets are estimated for an individual financial asset or for a group of financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events.

Impairment of financial assets implies defining criteria that determine whether the credit risk of a financial asset has been increased in relation to the initial recognition of that financial asset by defining, selecting and accepting an appropriate internal methodology by the management, as explained in Notes 3.3 and 32.

Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Bank's policy is to disclose fair value information on those financial assets and financial liabilities for which published market information is readily available or such value may be calculated by applying certain alternative valuation techniques, and whose fair value is materially different from their recorded amounts. As per the Banks' management, amounts presented in the financial statements reflect fair value which is most reliable and useful for financial reporting purposes, in accordance with International Financial Reporting Standards.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Summary of Key Accounting Estimates and Assumptions (Continued)

Fair Value of Assets (Continued)

Fair value of financial instruments for which an active market does not exist is determined by applying adequate methods of estimating future cash flows of assets that are discounted by applying an adequate discount rate to their fair value. The Bank applies its professional judgment in the selection of adequate methods and assumptions. Fair values information is set out in Note 32.

Provisions for Long-Term Employee Benefits

The Bank has independently calculated provisions for employee retirement benefits and jubilee awards by using its professional judgment to determine the discount rate, income growth rate and employee turnover rate based on the available information, which is explained in detail in Notes 3.10 and 27.

Depreciation and Amortization Rates Applied

The calculation of depreciation and amortization, as well as depreciation and amortization rates are based on the estimated economic useful life of property, plant, equipment and intangible assets. Once a year the Bank assesses economic useful life based on current assumptions.

Provisions for Litigations

The Bank estimates the probability of occurrence of an unfavourable event that is the result of a past event, and if it is estimated that the event will occur with probability greater than 50%, the Bank makes provisions in the total amount of the liability. The Bank is conservative in its estimates, but due to high level of uncertainty, in some cases, the estimate might not be consistent with eventual future outcome of the litigation.

4. NET INTEREST INCOME

	Thousands of RSD	
	Year ended	
	December 31,	
	2019	2018
Interest income from:		
Debt securities:		
- in dinars	-	203,282
- in foreign currency	11,057,800	8,705,854
Deposits placed:		
- in dinars	132	137
- in foreign currencies	2,659,795	2,821,067
Loans approved:		
- in dinars	101,501	316,755
Other investments:		
- in dinars	81	177
- in foreign currencies	428	42
	<u>13,819,737</u>	<u>12,047,314</u>
Interest expenses arising from:		
Deposits in dinars:		
- required special reserve of banks in dinars	(2,058,633)	(2,260,875)
- surplus liquid assets of banks	(563,252)	(268,079)
- transaction deposits	(1,111)	(1,618)
Deposits in foreign currencies:		
- time deposits	(225,655)	(972,715)
- demand deposits	(19,309)	(10,173)
Negative interest on financial assets in foreign currency	(1,051,682)	-
Repurchase transactions	(712,532)	(1,172,586)
Liabilities to IMF	(82,029)	(75,033)
Borrowings	(70,425)	(92,492)
Other	(6,394)	(357)
	<u>(4,791,022)</u>	<u>(4,853,928)</u>
Net interest income	<u>9,028,715</u>	<u>7,193,386</u>

Negative interest on financial assets in foreign currency which was assessed in the amount of RSD 1,051,682 thousand and shown in 2019 under interest expense, in 2018 was presented within other expenses and amounted to RSD 665,454 thousand (Note 14).

The stated amount of Net interest income includes interest income and expense, calculated using the effective interest method, which relate to the following:

	Thousands of RSD	
	Year ended	
	December 31,	
	2019	2018
Financial assets measured at amortized cost	2,833,488	3,347,930
Financial assets at fair value through other comprehensive income	10,986,249	8,699,384
	<u>13,819,737</u>	<u>12,047,314</u>
Financial liabilities measured at amortized cost	<u>4,791,022</u>	<u>4,853,928</u>

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5. NET FEE AND COMMISSION INCOME

	Thousands of RSD	
	Year ended	
	December 31,	
	2019	2018
Fee and commission income in dinars:		
- fees for RTGS and clearing operations	1,358,538	1,262,412
- fees for enforced collection	1,848,806	1,625,966
- fees for supervision over insurance operations	443,235	402,638
- other fees in dinars	328,003	328,305
Fee and commission income in foreign currencies		
- positive effects of arbitration	203,233	242,008
- fees for foreign exchange and currency transactions	911,880	1,292,658
- operating fees in the name and on behalf of third parties	119,159	133,112
- other fees in foreign currency	65,733	59,091
	<u>5,278,587</u>	<u>5,346,190</u>
Fee and commission expenses in dinars:		
- commission based on the sales of bill of exchange forms	(15,923)	(17,689)
- other fees and commissions in dinars	(2,057)	(1,786)
Fee and commission expenses in foreign currencies:		
- stand-by arrangement with IMF and commitment fee	-	(28,610)
- foreign account maintenance fees and foreign payment transactions	(68,889)	(66,506)
- negative effects of arbitration	(191,225)	(351,885)
- fee for foreign exchange and currency transactions	(120,948)	(95,282)
- other fees in foreign currency	(334)	(241)
	<u>(399,376)</u>	<u>(561,999)</u>
Net fee and commission income	<u>4,879,211</u>	<u>4,784,191</u>

The total reported income and expense on fees and commissions relates to financial assets and financial liabilities that are measured at amortized cost.

6. NET GAINS FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

	Thousands of RSD	
	Year ended	
	December 31,	
	2019	2018
Income from sales and changes in fair value of swap transactions	501,765	306,365
Expenses from sales and changes in fair value of swap transactions	(262,962)	(296,316)
Net income	283,803	10,049

7. NET LOSSES FROM DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Thousands of RSD	
	Year ended	
	December 31,	
	2019	2018
Income from derecognition (sale) of financial assets measured at FVOCI	1,846,852	419,386
Loss from derecognition (sale) of financial assets measured at FVOCI	(3,495,562)	(1,289,585)
Net (loss)	(1,648,710)	(870,199)

8. NET INCOME FROM FOREIGN EXCHANGE RATE AND EFFECTS OF CONTRACTED FOREIGN CURRENCY

	Thousands of RSD	
	Year ended	
	December 31,	
	2019	2018
Net income/expenses from foreign exchange rate and effect of contracted foreign currency:		
- cash and accounts with banks	(1,230,466)	188,042
- gold and other precious metals	18,446,336	2,642,953
- deposits, loans and placements	1,086,623	8,209,893
- securities	4,579,659	11,122,216
- IMF assets and liabilities	(409)	(1,616)
- liabilities arising from received deposits and other liabilities to banks, financial organizations, state and other depositors	1,705,059	(4,775,773)
- other assets and other liabilities	(29,266)	12,924
Total net income from exchange differences and effects of contracted currency clause	24,557,536	17,398,639

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9. NET INCOME FROM DECREASE IN IMPAIRMENT OF FINANCIAL ASSETS

a) Structure of Income and Expenses

<u>In thousands of RSD</u>	<u>2019</u>	<u>Year ended December 31, 2018</u>
Income from impairment allowances:		
- of financial assets at amortized cost	185,175	2,294,913
- of financial assets at FVOCI	15,584	11,548
Income from collected written-off receivables	-	60,705
	<u>200,759</u>	<u>2,367,166</u>
Expenses from impairment:		
- of financial assets at amortized cost	(61,681)	(51,781)
- of financial assets at FVOCI	(32,031)	(24,811)
	<u>(93,712)</u>	<u>(76,592)</u>
Net income	<u>107,047</u>	<u>2,290,574</u>

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9. NET INCOME FROM DECREASE IN IMPAIRMENT OF FINANCIAL ASSETS (Continued)

b) Movements on the Accounts of Impairment Allowances

<u>In thousands of RSD</u>	Cash and current accounts held with banks (Note 16)	Deposits held with banks (Note 18)	*Securities (Note 19)	Loans and placements (Note 20)	Other assets (Note 23)	Total
Balance as at January 1, 2019	871,049	2,776,744	576,465	1,536,118	356,060	6,116,436
Change for the period-financial assets	-	30,438	-	17,380	13,863	61,681
Change for the period-supplies	-	-	-	-	4,986	4,986
Reversed impairments	-	(28,794)	(114,144)	(30,378)	(11,859)	(185,175)
Foreign exchange effects	10,661	41,132	-	-	2,026	53,819
Write-offs	-	-	(3,303)	(5,419)	(1,617)	(10,339)
Other	-	-	-	1,824	(20,834)	(19,010)
Balance as at December 31, 2019	881,710	2,819,520	459,018	1,519,525	342,625	6,022,398

<u>In thousands of RSD</u>	Cash and current accounts held with banks (Note 16)	Deposits held with banks (Note 18)	*Securities (Note 19)	Loans and placements (Note 20)	Other assets (Note 23)	Total
Balance as at January 1, 2018	840,057	2,663,081	894,216	1,666,337	3,342,243	9,405,934
Change for the period-financial assets	-	25,870	-	21,364	4,547	51,781
Change for the period-supplies	-	-	-	-	3,507	3,507
Reversed impairments	-	(27,108)	(87,740)	(152,692)	(2,027,372)	(2,294,912)
Foreign exchange effects	30,992	114,901	-	-	90,648	236,541
Write-offs	-	-	(230,011)	(98)	(1,057,513)	(1,287,622)
Other	-	-	-	1,207	-	1,207
Balance as at December 31, 2018	871,049	2,776,744	576,465	1,536,118	356,060	6,116,436

* In accordance with IFRS 9, the effect of impairment of debt securities through other comprehensive income are recognised through other comprehensive income and profit and loss and do not decrease carrying amount of related debt securities in the balance sheet.

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10. OTHER OPERATING INCOME

<u>In thousands of RSD</u>	<u>2019</u>	<u>Year ended December 31, 2018</u>
Income from operations – ZIN	6,244,358	5,885,081
Income from the sale of bill of exchange forms	159,226	176,891
Rental income	19,965	15,239
Increase in the value of inventories	5	178,690
Dividend income	102,874	98,068
Other income	113,829	225,438
Other operating income	<u>6,640,257</u>	<u>6,579,407</u>

Income from ZIN operations refers to the income from the sales of ZIN products – products of the Institute for Manufacturing Banknotes and Coins, which operates within the Bank. In addition to manufacturing banknotes and coins for circulation and numismatic money, ZIN is involved in production of documents, securities and other products.

Rental income of RSD 19,965 thousand earned during 2019 (2018: RSD 15,239) includes income from the lease of investment property in the amount of RSD 12,942 thousand (2018: RSD 11,687 thousand). Expenses incurred in respect of the lease of investment property in 2019 amounted to RSD 6,385 thousand (2018: RSD 6,237 thousand) and are presented in the other expenses.

Dividend income of RSD 102,874 thousand (2018: RSD 98,068 thousand) was realized based on equity investment in the Bank for International Settlements, Basel.

11. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

<u>In thousands of RSD</u>	<u>2019</u>	<u>Year ended December 31, 2018</u>
Salaries, salary compensations, taxes and contributions	4,488,998	4,195,408
Losses from provisions /(Gains) from decrease in provisions for retirement and other employee benefits	186,709	(111,362)
Temporary and seasonal employees	54,200	60,219
Jubilee awards	35,393	46,871
Financial aid to employees	27,740	23,450
Retirement benefits	33,731	25,500
Remunerations to the Council members	9,519	8,787
Total salaries, salary compensations and other personal expenses	<u>4,836,290</u>	<u>4,248,873</u>

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12. DEPRECIATION COSTS

<u>In thousands of RSD</u>	<u>2019</u>	<u>Year ended December 31, 2018</u>
Depreciation and amortization of:		
- intangible assets	91,374	47,095
- building properties	225,695	1,107,049
- equipment	723,355	573,114
- other assets	974	943
Total depreciation costs	<u>1,041,398</u>	<u>1,728,201</u>

13. OTHER INCOME

<u>In thousands of RSD</u>	<u>2019</u>	<u>Year ended December 31, 2018</u>
Income from reversal of provisions for litigations (Note 27)	47,698	13,270
Income from registered fixed assets and small inventory	16,518	3,938
Other	4,050,370	4,956,070
Total other income	<u>4,114,586</u>	<u>4,973,278</u>

Of the total amount of other income the largest part in amount of RSD 3,020,701 thousand (2018: RSD 4,811,404 thousand) refers to income from bankruptcy estates of legal entities under the authority of the Deposit Insurance Agency.

14. OTHER EXPENSES

<u>In thousands of RSD</u>	<u>2019</u>	<u>Year ended December 31, 2018</u>
Cost of materials	2,081,447	2,509,466
Cost of production services:		
- transportation services	1,339	3,337
- telecommunication services	46,363	50,375
- automatic data transfer	133,899	116,995
- maintenance	355,483	245,205
- rental costs	33,459	7,377
- marketing and advertising	3,998	1,614
- official gazettes and magazines	5,496	6,237
- finishing costs – ZIN	-	15,703
- other services	27,477	27,777
Non-material expenses:		
- business travel expenses	30,514	30,443
- employee commuting allowance	89,014	84,605
- fees to voluntary pension funds	112,774	105,207
- employee professional training costs	6,972	7,347
- intellectual services	349,975	234,312
- security services (for property and money)	37,452	35,243
- public utilities	16,094	15,714
- entertainment	11,405	9,082
- insurance premiums	63,041	59,193
- other non-material expenses	88,982	52,463
Tax expenses:		
- property tax	46,988	59,069
- value added tax payable	119,534	105,919
- other taxes payable	22,325	19,852
Contributions paid	9,351	7,045
Negative interest expenses	-	665,454
Other costs	258,460	380,612
Losses incurred in the transfers among investment properties and property, plant and equipment	-	16,030
Expenses upon revaluation of property and other fixed assets	-	276,773
Decrease in the value of inventories	224,714	49,964
Provisions for litigations (Note 27)	66,431	29,482
Other expenses	32,344	88,707
Total other expenses	<u>4,275,331</u>	<u>5,316,602</u>

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15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Classification of financial assets and financial liabilities

The following table summarizes the financial assets and financial liabilities according to the categories to which they are classified:

<u>In thousands of RSD</u>	<u>Note</u>	<u>Valued at amortized cost</u>	<u>Valued at fair value through profit and loss</u>	<u>Valued at fair value through other comprehensive income - mandatory</u>	<u>Valued at fair value through other comprehensive income – optionally</u>	<u>Total December 31, 2019</u>
Balance as at December 31, 2019						
Financial assets						
Cash and assets held with banks	16	339,485,874	-	-	-	339,485,874
Deposits	18	207,598,412	-	-	-	207,598,412
Receivables for derivatives		-	5,259	-	-	5,259
Securities	19	-	-	873,681,059	11,098,068	884,779,127
Loans and placements	20	982,245	-	-	-	982,245
IMF membership quota and SDR holdings	21	96,333,002	-	-	-	96,333,002
Other assets	23	1,083,375	-	-	-	1,083,375
Total		645,482,908	5,259	873,681,059	11,098,068	1,530,267,294
Financial liabilities						
Liabilities from derivatives		-	4,809	-	-	4,809
Deposits and other liabilities to banks, other financial organisations	24	651,514,126	-	-	-	651,514,126
Deposits and other liabilities to Government and other depositors	25	397,401,344	-	-	-	397,401,344
Liabilities to the IMF	26	96,448,924	-	-	-	96,448,924
Dinars in circulation	29	209,567,662	-	-	-	209,567,662
Other liabilities	30	1,786,825	-	-	-	1,786,825
Total		1,356,718,881	4,809	-	-	1,356,723,690

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15. FINANCIAL ASSETS AND LIABILITIES (Continued)

Classification of financial assets and liabilities (Continued)

<u>In thousands of RSD</u>	<u>Note</u>	<u>Valued at amortized cost</u>	<u>Valued at fair value through profit and loss</u>	<u>Valued at fair value through other comprehensive income - mandatory</u>	<u>Valued at fair value through other comprehensive income – optionally</u>	<u>Total December 31, 2018</u>
Balance as at December 31, 2018						
Financial assets						
Cash and current accounts held with banks	16	336,376,900	-	-	-	336,376,900
Deposits	18	145,221,006	-	-	-	145,221,006
Receivables for derivatives			43,481	-	-	43,481
Securities	19	4,287,363	-	769,301,228	10,319,457	783,908,048
Loans and placements	20	1,011,133	-	-	-	1,011,133
IMF membership quota and SDR holdings	21	95,504,052	-	-	-	95,504,052
Other assets	23	500,693	-	-	-	500,693
Total		582,901,147	43,481	769,301,228	10,319,457	1,362,565,313
Financial liabilities						
Liabilities from derivatives		-	39,851	-	-	39,851
Deposits and other liabilities to banks and other financial organizations	24	583,320,898	-	-	-	583,320,898
Deposits and other liabilities to Government and other depositors	25	284,237,166	-	-	-	284,237,166
Liabilities to the IMF	26	95,594,200	-	-	-	95,594,200
Dinars in circulation	29	182,611,179	-	-	-	182,611,179
Other liabilities	30	1,844,888	-	-	-	1,844,888
Total		1,147,608,331	39,851	-	-	1,147,648,182

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16. CASH AND ASSETS HELD WITH BANKS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand:		
- in local currency	46	72
- in foreign currency	196,765,125	177,673,050
	<u>196,765,171</u>	<u>177,673,122</u>
Current accounts:		
- with domestic banks and Bank	12,597,899	14,531,310
- with foreign banks	131,004,514	145,043,517
Allowance for impairment	(881,710)	(871,049)
	<u>142,720,703</u>	<u>158,703,778</u>
Total cash and current accounts held with banks	<u>339,485,874</u>	<u>336,376,900</u>

SDR holdings at the IMF's current account (including reserve tranche), amounted to RSD 8,117,937 thousand (December 31, 2018: RSD 8,074,434 thousand), are presented in Note 21.

17. GOLD AND OTHER PRECIOUS METALS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Gold and standard tradable gold bullions	51,256,095	4,287,251
Gold and substandard gold bullions	105,937,133	82,722,476
Other precious metals	890,961	742,763
Total gold and other precious metals	<u>158,084,189</u>	<u>87,752,490</u>

18. DEPOSITS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deposits:		
- time deposits	210,400,213	147,979,720
- other deposits	17,719	18,030
	<u>210,417,932</u>	<u>147,997,750</u>
Allowance for impairment of time deposits	(2,819,520)	(2,776,744)
Total deposits	<u>207,598,412</u>	<u>145,221,006</u>

18. DEPOSITS (Continued)

Time deposits include short-term deposits placed with foreign banks and call deposits that do not have specified maturities but are drawn or raised in accordance with the Bank's needs,

The management of deposits in deposits with banks abroad is done on the basis of the Strategic Guidelines for Managing the Foreign Exchange Reserves of the Bank, as explained in Note 32.

19. SECURITIES

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Securities in RSD:		
Securities measured at amortized cost	459,018	576,465
Allowance for impairment of securities measured at amortized cost	(459,018)	(576,465)
Total securities in RSD	-	-
Securities in foreign currency:		
Securities measured at amortized cost	-	4,287,363
Securities measured at FVOCI:		
- mandatory	873,681,059	769,301,228
- optional	11,098,068	10,319,457
Total securities in foreign currency	884,779,127	783,908,048
Total securities	884,779,127	783,908,048
<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Securities measured at amortized cost		
Securities measured at amortized cost in RSD	459,018	576,465
Securities measured at amortized cost in foreign currency	-	4,287,363
Allowance for impairment of securities measured at amortized cost	(459,018)	(576,465)
Total	-	4,287,363

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19. SECURITIES (Continued)

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Securities measured at FVOCI - Mandatorily		
Coupon bonds	852,767,213	744,659,951
Discount securities	20,913,846	24,641,277
Total	873,681,059	769,301,228

Coupon Securities relate to foreign government bonds (including government securities with floating rate interest rates - FRN), Public Offering (Supranational, Subnational, Agencies, Sovereign) including FRN, as well as foreign securities with high quality collateral (covered bonds) in the amount of 852,767,213 thousand dinars (December 31, 2018: 744,659,951 thousand dinars). Securities are denominated in EUR, USD, GBP and CAD.

Discount securities relate to foreign state discount securities (T-bills) of maturity up to one year, in the amount of RSD 20,913,846 thousand (December 31, 2018: RSD 24,641,277 thousand), and represent short-term securities denominated in USD.

The change in fair value, as well as the expected credit losses of all expenses of receivables are within the capital fair value reserve position (note 31).

The management of financial assets at fair value through other results is done on the basis of the Strategic Guidelines for Managing Foreign Exchange Reserves of the Bank, as explained in note 32.

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Equity securities measured at FVOCI (optional)		
Equity investments in foreign currencies:		
- Bank for International Settlements, Basel	11,097,434	10,318,847
- S.W.I.F.T. srl	634	610
Total	11,098,068	10,319,457

On January 1, 2018, on the date of application of IFRS 9 - Financial Instruments, The Bank made the decision to report the change in fair value of the stock of the Bank's shares of the Bank for International Settlement, Basel and S.W.I.F.T. srl, that are non-trading equity, within other comprehensive income.

As at 31 December 2019, the increase in reserves based on changes in fair value of equity securities amounted to RSD 778,612 thousand (December 31, 2018 - RSD 387,718 thousand). The realized dividend income amounted to RSD 102,874 thousand (2018: RSD 98,068 thousand).

20. LOANS AND PLACEMENT

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Loans and placements:		
- loans to banks in bankruptcy and liquidation	426,765	434,813
- loans to commercial banks	530,465	530,465
- loans from primary emission	956,639	956,639
- housing loans approved to employees	580,296	618,807
- other placements	7,605	6,527
	<u>2,501,770</u>	<u>2,547,251</u>
Allowance for impairment of loans and placements:		
- loans to banks in bankruptcy and liquidation	(426,765)	(434,813)
- loans from primary emission	(956,639)	(956,639)
- housing loans approved to employees	(136,121)	(144,666)
	<u>(1,519,525)</u>	<u>(1,536,118)</u>
Total loans and placements	<u>982,245</u>	<u>1,011,133</u>

21. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
IMF membership quota	88,215,065	87,429,618
SDR reserve tranche	6,786,332	6,725,908
SDR holdings	1,331,605	1,348,526
Total	<u>96,333,002</u>	<u>95,504,052</u>

As at December 31, 2019, the Republic of Serbia's quota in the International Monetary Fund (including reserve tranche) amounted to RSD 95,001,397 thousand (December 31, 2018: RSD 94,155,526 thousand).

The membership quota stated as a placement denominated in special drawing rights (*Special Drawing Rights* - SDR) amounts to SDR 654,800 thousand (December 31, 2018: SDR 654,800 thousand).

22. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY

Movements on property, plant, equipment, investment property and intangible assets are presented in the following table:

<u>In thousands of RSD</u>	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Other Fixed Assets</u>	<u>Investments in progress</u>	<u>Total</u>	<u>Investment Property</u>	<u>Intangible Assets</u>
Cost/revalued amount								
Opening balance as at January 1, 2018	2,825,701	55,376,805	11,043,199	263,633	9,641	69,518,979	467,609	2,091,095
Additions	-	-	-	-	2,217,925	2,217,925	-	88,920
Transfer from investment in progress	-	22,770	2,199,820	3,286	(2,225,876)	-	-	-
Revaluation – net effect	(194,908)	20,410,531	-	59,353	-	20,274,976	(61,762)	-
Sales, transfers, disposals and shortages	-	(48,395)	(305,524)	(128)	-	(354,047)	-	(462)
Surpluses and subsequently registered assets	-	3,480	42	1,273	-	4,795	-	-
Other	-	-	-	-	(1,690)	(1,690)	1,845	1,690
Balance as at December 31, 2018	2,630,793	75,765,191	12,937,537	327,417	-	91,660,938	407,692	2,181,243
Additions	-	-	61,017	-	1,152,549	1,213,566	-	78,077
Transfer from investment in progress	-	112,667	1,028,242	366	(1,141,275)	-	-	-
Revaluation - positive effects	-	-	-	3,720	-	3,720	-	-
Revaluation - negative effects	-	-	-	(3,406)	-	(3,406)	-	-
Sales, transfers, disposals and shortages	-	-	(260,625)	(71)	-	(260,696)	-	(12,389)
Surpluses and subsequently registered assets	-	-	19,906	18,493	-	38,399	-	382
Other	-	-	(10,089)	10,127	(11,274)	(11,236)	-	11,664
Balance as at December 31, 2019	2,630,793	75,877,858	13,775,988	356,646	-	92,641,285	407,692	2,258,977
Accumulated Depreciation/Amortization								
Opening balance as at January 1, 2018	-	42,326,297	6,937,210	22,369	-	49,285,876	-	1,978,670
Depreciation	-	1,107,049	573,114	943	-	1,681,106	-	47,095
Revaluation – net effect	-	22,183,145	-	-	-	22,183,145	-	-
Sales, transfers, disposals and shortages	-	(32,366)	(305,370)	(127)	-	(337,863)	-	(462)
Balance as at December 31, 2018	-	65,584,125	7,204,954	23,185	-	72,812,264	-	2,025,303
Depreciation	-	225,695	723,355	974	-	950,024	-	91,374
Sales, transfers, disposals and shortages	-	-	(260,588)	(45)	-	(260,633)	-	(12,389)
Surpluses and subsequently registered assets	-	-	19,778	2,102	-	21,880	-	383
Other	-	-	(8,207)	-	-	(8,207)	-	-
Balance as at December 31, 2019	-	65,809,820	7,679,292	26,216	-	73,515,328	-	2,104,671
Current value as at December 31, 2019	2,630,793	10,068,038	6,096,696	330,430	-	19,125,957	407,692	154,306
Current value as at December 31, 2018	2,630,793	10,181,066	5,732,583	304,232	-	18,848,674	407,692	155,940

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22. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

Fair Value Hierarchy

The Bank measures the fair value of land, buildings, a portion of other fixed assets (works of art), a portion of equipment (period furniture) and investment property using the fair value hierarchy to categorize inputs used to measure fair value according to their quality in the manner disclosed in Note 32.

The fair values of assets as at 31 December 2019 carried at fair value per hierarchy level in accordance with IFRS 13 can be presented as follows:

	Level 1	Level 2	Level 3	Total
Land	-	-	2,630,793	2,630,793
Buildings	-	-	10,068,038	10,068,038
Other fixed assets – works of art, museum values and numismatic collection	-	-	287,417	287,417
Equipment – period furniture	-	-	196,731	196,731
Investment property	-	-	407,692	407,692
December 31, 2019	-	-	13,590,671	13,590,671

Overview of Valuation Techniques and Significant Unobservable Inputs

On 2 December 2019, the Bank performed the valuation of scientific and technical cultural assets by engaging the Museum of Science and Technology in Belgrade. The valuation was made on the basis of expertise and scientific historical value, rarity and craftsmanship. The effects of the valuation are presented within other incomes, in the amount of RSD 16,157 thousand and revaluation reserves, in the amount of RSD 8,560 thousand.

Values of cultural heritage in the field of fine arts have been appraised as of August 31, 2018, by engaging Republic Institute for the Protection of Cultural Monuments – Belgrade. The Bank also made appraisal of certain number of coins within the numismatic collections. The Bank's management considers that the valuation made at December 31, 2018 reflects the carrying amount at December 31, 2019.

Valuation of the fair value of the immovables used by Bank as at 31 December 2018 was made by CBS International doo Belgrade. The valuation was made using market (comparable prices of immovables that are subject of purchase/sale in local market, with adjustments related to the physical condition of particular immovable), yield (determining the present value of future cash flows during economic life of assets by applying a capitalization rate that reflects the risk of achieving the projected cash flows and the time value of money) and cost approaches (cost of construction of a new building from which are deducted three possible forms of obsolescence: physical, functional and economic). The Bank's management considers that there were no movements and changes in the market during 2019 that would lead to a significant deviation in value and that the valuation made at December 31, 2018 reflects the carrying value at December 31, 2019.

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22. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT
PROPERTY (Continued)

The effects of the reappraisal of land, buildings, other fixed assets (art objects and numismatic collections) and investment property during 2018 are shown in the following table:

<u>In thousands of RSD</u>	<u>Land</u>	<u>Buildings</u>	<u>Other Fixed Assets</u>	<u>Investment Property</u>	<u>Total</u>
Effects of fair value changes					
Increase in revaluation reserves	181,769	738,233	60,796	-	980,798
Decrease of revaluation reserves	(207,520)	(2,420,146)	(842)	(94,299)	(2,722,807)
Decrease in revaluation reserves based on intangible assets and fixed assets	(25,751)	(1,681,913)	59,954	(94,299)	(1,742,009)
Income based on fair values changes	-	-	-	48,851	48,851
Expenses based on fair values changes	(169,157)	(90,701)	(601)	(16,314)	(276,773)
Total increase / (decrease) based on fair values changes	(194,908)	(1,772,614)	59,353	(61,762)	(1,969,931)

The fair value of the revaluation assets as at 31 December 2019 and the present value of revaluated assets that would have been recognized that the assets were recorded at the cost method is shown as follows:

<u>In thousands of RSD</u>	<u>Land</u>	<u>Buildings</u>	<u>Equipment and other fixed assets</u>	<u>Investment Property</u>	<u>Total</u>
Fair value as of December 31, 2019	2,630,793	10,068,038	484,122	407,692	13,590,645
The present value of revaluated assets at the cost method as of December 31, 2019	967,585	9,702,169	169,459	298,243	11,137,456

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23. OTHER ASSETS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Advances paid	103,732	343,862
Fee and commission receivables	203,267	168,165
Receivables from the sales of finished products and services	93,861	113,421
Receivables from employees	97,350	96,915
Other receivables from operations	745,351	166,434
Inventories		
- Finished products	921,677	1,075,931
- Work in progress	165,119	203,012
- Semi-finished products	246,399	272,942
- Material	1,329,290	1,286,704
- Spare parts	238,518	226,367
- Commemorative coins and commercial packages of cash	158,952	160,716
- Gold and silver, which is not cashable	587,108	587,108
- Other	264,844	277,998
	<u>3,911,907</u>	<u>4,090,778</u>
Deferred other expenses	31,474	30,364
Other assets	<u>235,591</u>	<u>243,799</u>
	<u>5,422,533</u>	<u>5,253,738</u>
Allowances for impairment of:		
Fee and commission receivables	(69,526)	(72,002)
Receivables from the sales of finished products and services	(21,296)	(17,459)
Receivables from employees	(1,190)	(1,173)
Other receivables from operations	(40,693)	(42,095)
Inventories	(50,696)	(68,020)
Other assets	<u>(159,224)</u>	<u>(155,311)</u>
	<u>(342,625)</u>	<u>(356,060)</u>
Total other assets	<u>5,079,908</u>	<u>4,897,678</u>

Out of the total amount of Other assets t, RSD 1,114,964 thousand are measured at amortized cos (2018: RSD 531,058 thousand).

24. DEPOSITS AND OTHER LIABILITIES TO BANKS AND OTHER FINANCIAL ORGANIZATIONS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Transaction deposits in dinars:		
- obligatory reserves of the banks	217,460,314	182,310,903
- central deposits	12,597,899	14,531,310
- other transaction deposits in dinars	411	20
	<u>230,058,624</u>	<u>196,842,233</u>
Transaction deposits in foreign currencies:		
- obligatory reserves of the banks	224,788,544	216,762,516
- other transaction deposits in foreign currencies	1,182,824	63,440,573
	<u>225,971,368</u>	<u>280,203,089</u>
Total transaction deposits	456,029,992	477,045,322
Other deposits in dinars:		
- liquid asset surpluses	67,867,405	37,881,411
- cash in vaults of commercial banks	55,202,436	48,522,418
	<u>123,069,841</u>	<u>86,403,829</u>
Other deposits in foreign currencies:		
- time deposits	180,542	163,644
- other deposits	192,326	188,851
	<u>372,868</u>	<u>352,495</u>
Total other deposits	123,442,709	86,756,324
Liabilities arising from repurchase transactions	70,001,975	16,506,569
Other financial liabilities	2,039,450	3,012,683
	<u>72,041,425</u>	<u>19,519,252</u>
Total other liabilities	72,041,425	19,519,252
Total deposits and other liabilities to banks and other financial organizations	<u>651,514,126</u>	<u>583,320,898</u>

Transaction deposits

Transaction deposits of banks and other financial institutions in dinars represent current accounts of banks and other financial institutions with the Bank. Obligatory reserves in dinars are held on the current accounts of commercial banks with the Bank, where banks are under obligation to maintain the average daily balance of their obligatory reserves in the reporting period at or above the level of calculated obligatory reserves.

24. DEPOSITS AND OTHER LIABILITIES TO BANKS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

Transaction Deposits (Continued)

In the amount of the realized average daily balance of the allocated dinar reserve requirement in the accounting period that does not exceed the amount of the calculated required reserve in dinars. In 2019, until August 17, the Bank paid interest at the rate of 1.25% annually, from August 18 to November 17, 2019 in the amount of 1.00% annually, and from November 18, 2019 in the amount of 0.75% annually (2018: 1.75% until March 17, 1.50% until April 17 and 1.25% until the end of the year, annually).

Mandatory foreign currency reserve refers to the obligation of commercial banks to hold non-interest bearing deposits with the Bank in accordance with rules prescribed by the Law and relevant bylaws.

25. DEPOSITS AND OTHER LIABILITIES TO GOVERNMENT AND OTHER DEPOSITORS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Transaction deposits in dinars:		
- deposits of the Ministry of Finance and Treasury Department	251,338,175	179,887,841
- other transaction deposits in dinars	809,324	669,789
	<u>252,147,499</u>	<u>180,557,630</u>
Transaction deposits in foreign currencies:		
- deposits of the Ministry of Finance and Treasury Department	30,008,970	21,749,864
- other transaction deposits in foreign currencies	29,236	40,612
	<u>30,038,206</u>	<u>21,790,476</u>
Total transaction deposits	282,185,705	202,348,106
Other deposits in dinars:		
- cash held with the Treasury Department	1,448,354	1,490,040
- other deposits in dinars	2,279,714	16,103
	<u>3,728,068</u>	<u>1,506,143</u>
Other deposits in foreign currencies:		
- deposits of the Revolving Loan Fund	728,258	660,415
- special-purpose deposits – grant accounts	4,897,043	5,211,896
- special-purpose deposits – Ministry of Finance and Treasury Department	39,677,969	29,354,999
- other special-purpose deposits	27,584,147	35,937,273
- deposits related to the seized foreign currency	3,134,500	3,043,222
- time deposits	19,561,274	1,584,046
- other deposits in foreign currencies	15,741,166	4,430,029
- other financial liabilities	163,214	161,037
	<u>111,487,571</u>	<u>80,382,917</u>
Total other deposits	115,215,639	81,889,060
Total deposits and other liabilities to Government and other depositors	<u>397,401,344</u>	<u>284,237,166</u>

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26. LIABILITIES TO THE IMF

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Securities and other liabilities regulating the Bank's status with the IMF	88,217,047	87,431,593
Liabilities to the IMF in SDR	8,221,189	8,147,990
Interest accrued	10,688	14,617
Total liabilities to the IMF	<u>96,448,924</u>	<u>95,594,200</u>

27. PROVISIONS

<u>In thousands of RSD</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Provisions for employee retirement benefits	864,337	578,752
Provisions for employee jubilee awards	528,527	400,078
Provisions for unused vacations	177,081	159,208
Provisions for litigations	143,136	156,157
Total provisions	<u>1,713,081</u>	<u>1,294,195</u>

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27. PROVISIONS (Continued)

Movements on Provisions

	Thousands of RSD				
	Provisions for retirement benefits	Provisions for jubilee awards	Provisions for unused vacations	Provisions for litigations	Total
Balance as at January 1, 2018	533,751	525,206	171,260	182,482	1,412,699
Change for the period (Note 11, 14 and 31)	45,001			29,482	74,483
Release of provisions during the period	-	-	-	(42,537)	(42,537)
Reversal of provisions (Note 13)	-	(125,128)	(12,052)	(13,270)	(150,450)
Balance as at December 31, 2018	578,752	400,078	159,208	156,157	1,294,195
Change for the period (Note 11, 14 and 31)	285,585	128,449	17,873	66,431	498,338
Release of provisions during the period	-	-	-	(31,754)	(31,754)
Reversal of provisions (Note 13)	-			(47,698)	(47,698)
Balance as at December 31, 2019	864,337	528,527	177,081	143,136	1,713,081

Provisions for Retirement Benefits and Jubilee Awards

Provisions for retirement benefits and jubilee awards were established on the basis of the report of the certified actuary and are presented in the amount of discounted present value of future payments.

The basic assumptions on which the assessment relies include the following:

- 1) Discount rate of 3.349% (rate of return on foreign long-term bonds corrected for inflation rate);
- 2) The expected annual growth rate of salaries that comprise: annual salary growth rates of 14.77% for 2020 and a rate of 7.5% after 2020;
- 3) Employee fluctuation rate: 0.34 % for ZIN and 1.20% for the Bank's headquarters and branches based on the Bank's data on the number of employees who terminated their employment contracts in the period from 2015 to 2019;
- 4) Disability rate: average rate of 0.28% for ZIN and 0.23% for headquarters and branch offices, based on the data of the National Bank of Serbia on the number of employees who went to disability pension in the period from 2015 to 2019;
- 5) Mortality tables published by the Republic Institute for Statistics 2010-2012, Separate probabilities for female and male gender were used.

On the basis of the same assumptions, the Bank made a provision based on jubilee awards paid to employees by the Bank in accordance with internal acts after fulfilling a certain number of years of service.

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27. PROVISIONS (Continued)

Provisions for Litigations

Provisions for litigations totalling RSD 143,136 thousand as at December 31, 2019 (December 31, 2018: RSD 156,157 thousand) were formed based on the estimates of the outcomes made by the Bank's Legal Department in respect of the lawsuits related to the Bank's functions, estimates made by the Human Resources Department in respect of the labor lawsuits and those made by the Bank's attorney. The amount of provisions formed represents the best possible estimate of the Bank's management in respect of expected expenses arising from legal suits with outcomes estimated as unfavorable for the Bank.

28. CURRENT TAX LIABILITIES

The Bank calculates and pays income taxes in accordance with the Corporate Income Tax Law of the Republic of Serbia and Rules on the Contents of the Tax Balance for Non-Profit Organizations –Corporate Income Tax Payers. The ultimate tax base to which the statutory corporate income tax rate of 15% is applied is determined by the tax balance for non-profit organizations applying the chart of accounts effective for the Bank, which is submitted within 180 days from the expiry date of the period for which the tax liability is determined. Payment of the income tax is made within the time prescribed for filing the tax return and tax balance.

The amount of taxable profit is calculated on the basis of revenues generated on the market, i.e., income from the sale of products and services, for expenses related to revenues realized on the market: costs of salaries, compensation of salaries and other personal expenses, depreciation costs and other operating expenses. Revenues realized on the market relate mostly to the operating income of ZIN, income from the sale of bill of exchange forms and rental income explained in Note 9. Expenses incurred in connection with revenues generated on the market are accounted for and presented in proportion to the share of revenues generated on the market in the total income of the taxpayer.

The income tax expense for 2019 as per the final calculation amounted to RSD 533,905 thousand (December 31, 2018: RSD 426,343 thousand).

Tax balance for the National Bank of Serbia

	Thousands of RSD	
	Year ended	
	December 31,	
	2019	2018
Income earned in the market		
- revenues from the sale of products and services	6,518,481	6,159,859
Expenses arising in relation to the income earned in the market		
- Salaries, salary compensations and other personal expenses	717,703	673,752
- Depreciation costs	347,702	555,263
- Other operating expenses	1,893,711	2,088,556
Tax base	3,559,365	2,842,288
Statutory income tax rate (effective tax rate)	15%	15%
Income tax expense	533,905	426,343

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29. DINARS IN CIRCULATION

Cash in circulation totalling RSD 209,567,662 thousand (December 31, 2018: 182,611,179 thousand) represents the Bank's liability toward payment transaction participants. This amount includes neither money in circulation held in vaults of commercial banks presented within liabilities to banks and other financial institutions (Note 24), nor money in circulation held with the Treasury Department, as presented within liabilities to the Government and other depositors (Note 25).

30. OTHER LIABILITIES

	Thousands of RSD	
	December 31, 2019	December 31, 2018
Trade payables:		
- domestic	147,007	190,611
- foreign	99,931	465,360
Advances received:		
- in dinars	208,505	229,272
- in foreign currencies	13,469	7,621
Liabilities for employee salaries	222,032	198,820
Foreign currency liabilities to domestic banks for replacement of foreign currency cash	-	145,444
Inheritance liabilities	17,323	41,980
Other accruals	28,379	28,677
Taxes and contributions payable	93,247	104,094
Other liabilities from operations	1,207,285	698,579
Total other liabilities	2,037,178	2,110,458

31. EQUITY

The structure of the Bank's equity is presented in the table below:

	Thousands of RSD	
	December 31, 2019	December 31, 2018
State-owned capital	178,253,299	171,128,873
Reserves:		
- Special reserves	118,899,884	104,711,573
- Revaluation reserves	13,912,428	13,903,869
- Fair value reserves	4,714,502	4,117,780
- Actuarial (losses)/gains	(195,692)	49,505
Retained earnings/(losses)	37,230,521	30,581,204
Total equity	352,814,942	324,492,804

31. EQUITY (Continued)

The Republic of Serbia is the sole owner of the Bank's entire capital

The Bank's equity comprises state-owned capital and reserves. Pursuant to the Law, the minimum amount of the Bank's core capital shall amount to RSD 10 billion. The core capital of the Bank totalled RSD 178,253,298 thousand as at December 31, 2019, (December 31, 2018: RSD 171,128,873 thousand) which is above the prescribed threshold. Special reserves are used for loss absorption. Losses exceeding the minimum level of the core capital are covered from the reserves and core capital if the funds therefrom are not sufficient to cover for the losses incurred, the losses are covered with the funds from the Republic of Serbia Budget or securities issued for this purpose by the Republic of Serbia and transferred to Bank. If the Republic of Serbia fail to cover for the Bank's loss, such loss is subsequently absorbed from the earnings realized in the future periods.

Fair value reserves represent a cumulative net change in the value of equity and debt securities measured at FVOCI. This amount also includes the amount of impairment of debt securities.

Profit Allocation

Pursuant to the Law, until the minimum amount of the core capital is achieved, the entire profit of the Bank is allocated to the core capital. Upon reaching the minimum amount of thereof, the entire profit of the Bank is allocated to special reserves of the Bank, until such reserves shall have reached the level of RSD 20 billion.

Upon reaching the minimum amount of the core capital and special reserve amount referred to in the paragraph above, the profit share originating from foreign exchange gains, gains from agreed currency clause and revaluation reserves of the Bank is allocated to the core capital (33.3%) and to special reserves (66.7%), while the remaining profit which does not come from foreign exchange gains, gains from agreed currency clause and revaluation reserves is allocated to the core capital (10%), special reserves (20%) and to the Budget of the Republic of Serbia (70%).

In 2019, the Bank made a profit after tax including profit arising from revaluation reserves in the amount of RSD 37,230,521 thousand (in 2018: RSD 30,659,162 thousand).

The following table presents distribution of profit for 2018, which is in accordance with the Decision on adoption financial statements of the National Bank of Serbia for 2018, and profit distribution for 2019, which will be distributed in accordance with the Decision on the Adoption of the Financial Statements of the National Bank of Serbia for 2019. This decision will be subject to adoption by the Council of Governors of the National Bank of Serbia:

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31. EQUITY (Continued)

	Thousands of RSD	
	December 31, 2019	December 31, 2018
Gains arising from exchange rate gains and from agreed currency clause	24,557,536	17,398,639
Profit arising from revaluation reserves	-	19,856
1. Total gains profit arising from exchange rate from agreed currency clause and revaluation reserves	24,557,536	17,418,495
2. Profit not originating from exchange rate gains, gains from agreed currency clause and revaluation reserves	12,672,985	13,240,667
Profit (1+2)	37,230,521	30,659,162
3. Loss of previous years based on the first application of IFRS 9	-	(77,958)
Profit (1+2+3)	37,230,521	30,581,204
Allocation of profit arising from exchange rate gains, gains from agreed currency clause and revaluation reserves (1)		
1.1) core capital increase 33.3%	8,177,659	5,800,359
1.2) special reserve increase 66.7%	16,379,877	11,618,136
	24,557,536	17,418,495
Allocation of profit not originating from exchange rate gains, gains from agreed currency clause and revaluation reserves (2):		
2.1) transfer the RS Budget 70%	8,871,090	9,268,467
2.2) core capital increase 10%	1,267,299	1,324,067
2.3) special reserve increase 20%	2,534,597	2,648,133
	12,672,985	13,240,667
Coverage of the loss of previous years under the first application of IFRS 9 (3)		
3.1) special reserve decrease	-	(77,958)
Total core capital increase (1.1+2.2)	9,444,958	7,124,426
Total special reserve increase/decrease (1.2+2.3+3.1)	18,914,474	14,188,311
Transfer to the Budget of the Republic of Serbia (2.1)	8,871,090	9,268,467
Profit	37,230,521	30,581,204

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32. RISK MANAGEMENT POLICIES

Basic financial risks to which the Bank is exposed to in its daily operations are the following:

- credit risk,
- liquidity risk,
- interest rate risk and
- currency risk.

Given that the primary purpose of the Bank is to preserve stability of prices and financial stability in the Republic of Serbia, its financial risk management framework is different from those of other commercial financial institutions. The majority of financial risks in the Bank arise from the management of foreign currency reserves and financial market operations.

Management of foreign exchange reserves is based on Strategic Guidelines for Managing the Bank's Foreign Exchange Reserves, which are determined by the Executive Board. The Guidelines define the criteria for foreign exchange reserve placement, aims of using the reserves, global investment framework and other. On the basis of these Guidelines, the Bank's Investment Committee prepares a Tactical Guidelines for management of foreign exchange reserves and then submits them to the Executive Board for approval. The Tactical Guidelines for managing foreign exchanges reserves are carried out by the Department for Management of Foreign Exchange Reserves within the Sector for Monetary and Foreign Exchange Operations. The Division for Risk Management and Risk Control operates within the Department for Management of Foreign Exchange Reserves is responsible to create and maintain a framework for managing the financial risks of foreign exchange reserves. This department monitors risks on daily basis, on a monthly basis they have to report to the Executive Board regarding the analysis of the risk.

As with the majority of central banks, the very nature of the Bank's business operations and its functions exposes it to a number of operational and reputational risks.

32. RISK MANAGEMENT POLICIES (Continued)

Financial Instruments (Assets and Liabilities)

The following table presents the net exposure of the Bank in financial assets and liabilities as at December 31, 2019 and 2018:

	Thousands of RSD	
	December 31, 2019	December 31, 2018
Financial assets		
Cash and current accounts held with banks	339,485,874	336,376,900
Deposits	207,598,412	145,221,006
Receivables for derivatives	5,259	43,481
Securities	884,779,127	783,908,048
Loans and placements	982,245	1,011,133
IMF membership quota and SDR holdings	96,333,002	95,504,052
Other assets	1,083,375	500,693
Total financial assets	1,530,267,294	1,362,565,313
Financial liabilities		
Liabilities under derivatives	4,809	39,851
Deposits and other liabilities to banks and other financial organisations	651,514,126	583,320,898
Deposits and other financial liabilities to Government and other depositors	397,401,344	284,237,166
Liabilities to the IMF	96,448,924	95,594,200
Dinars in circulation	209,567,662	182,611,179
Other liabilities	1,786,825	1,844,888
Total financial liabilities	1,356,723,690	1,147,648,182

Credit risk

Credit risk is the risk of default, i.e. the possibility that assets will not be timely and/or fully recovered or will not be collected with the planned/contracted dynamics and the tables below show the maximum exposure of the financial assets as of December 31, 2019 and December 31, 2018.

Credit quality of financial assets

The following table sets out information about the credit quality of financial assets measured at amortised cost, except cash and IMF membership quotas, and financial assets measured at fair value through other comprehensive income, except equity instruments that are optionally measured at FVOCI, net:

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Credit quality of financial assets (Continued)

	Stage 1	Stage 2	Stage 3	December 31, 2019
FINANCIAL ASSETS				
Cash and current accounts held with banks				
Gross carrying amount	142,720,703	-	881,710	143,602,413
Impaired amount	-	-	(881,710)	(881,710)
Net carrying amount	142,720,703	-	-	142,720,703
Deposits				
Gross carrying amount	207,604,441	-	2,813,491	210,417,932
Impaired amount	(6,029)	-	(2,813,491)	(2,819,520)
Net carrying amount	207,598,412	-	-	207,598,412
Securities measured at amortised cost				
Gross carrying amount	-	-	459,018	459,018
Impaired amount	-	-	(459,018)	(459,018)
Net carrying amount	-	-	-	-
Securities measured at FVOCI				
Net carrying amount	873,627,712	-	-	873,627,712
Provisions for expected credit losses*	(53,347)	-	-	(53,347)
Gross carrying amount (Note 19)*	873,627,712	-	-	873,627,712
Loans and placements				
Gross carrying amount	970,218	56,441	1,475,111	2,501,770
Impaired amount	(61,246)	(9,207)	(1,449,072)	(1,519,525)
Net carrying amount	908,972	47,234	26,039	982,245
IMF membership quota and SDR holdings				
	8,117,937	-	-	8,117,937
Other assets				
Gross carrying amount	995,965	6,777	372,562	1,375,304
Impaired amount	-	(712)	(291,217)	(291,929)
Net carrying amount	995,965	6,065	81,345	1,083,375

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Credit quality of financial assets (Continued)

	Stage 1	Stage 2	Stage 3	December 31, 2018
FINANCIAL ASSETS				
Cash and current accounts held with banks				
Gross carrying amount	158,703,778	-	871,049	159,574,827
Impaired amount	-	-	(871,049)	(871,049)
Net carrying amount	158,703,778	-	-	158,703,778
Deposits				
Gross carrying amount	145,225,269	-	2,772,481	147,997,750
Impaired amount	(4,263)	-	(2,772,481)	(2,776,744)
Net carrying amount	145,221,006	-	-	145,221,006
Securities measured at amortised cost				
Gross carrying amount	4,287,363	-	576,465	4,863,828
Impaired amount	-	-	(576,465)	(576,465)
Net carrying amount	4,287,363	-	-	4,287,363
Securities measured at FVOCI				
Gross carrying amount	769,300,859	-	-	769,300,859
Provisions for expected credit losses	(36,900)	-	-	(36,900)
Gross carrying amount (Note 19)	769,301,228	-	-	769,301,228
Loans and placements				
Gross carrying amount	1,006,592	54,415	1,486,244	2,547,251
Impaired amount	(66,925)	(8,834)	(1,460,359)	(1,536,118)
Net carrying amount	939,667	45,581	25,885	1,011,133
IMF membership quota and SDR holdings	8,074,434	-	-	8,074,434
Other assets				
Gross carrying amount	413,287	13,573	361,873	788,733
Impaired amount	-	(431)	(287,609)	(288,040)
Net carrying amount	413,287	13,142	74,264	500,693

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Credit quality of financial assets (Continued)

The basic exposure of the Bank to credit risk is principally inherent to managing foreign exchange reserves. When investing foreign currency reserves, the Bank relies on the principles of liquidity and safety. The Bank strives to invest foreign exchange reserves in such a manner that it realizes as high return on investment as possible without jeopardizing liquidity and safety.

The analysis and measurement of credit risk inherent in the Bank's portfolio is performed in accordance with the generally accepted methods, including the requirements of minimum credit rating.

Securities invested in must be at least rated as A- for state-issued bonds, A+ for public sector bonds and AA for bonds securitized with collaterals, according to *Standard&Poor's*, *Moody's Investor Service (Moody's)* and *Fitch Ratings*.

Banks maintaining deposits placed by the Bank, unless collateralized, must have a minimum long-term credit rating of AA-, according to *Standard&Poor's*, *Moody's* and *Fitch Ratings*. For each bank, the individual credit limit is determined based on the bank's credit rating, prior experience in operations with that bank and by analyzing data on its business performance. Individual credit limits are determined in the List of Authorized Issuers and Banks, in which it is permissible to place deposits, which is approved by Executive Board.

There are no limitations to placements with central banks and international financial institutions.

The exception from the previous paragraphs relates to funds held on the regular current accounts of the Bank held with banks without the required credit rating, used for international payment transactions.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets

The Bank will recognise a loss allowance (disclosure of a value adjustment i.e. provisions for expected credit loss) for the expected credit losses of financial assets that are measured at amortized cost and financial assets at fair value through other comprehensive income.

Expected credit loss is the amount of the present value of estimated credit losses, with the respective risks of a default occurring as the weights.

Financial assets are classified as impairment level 1, 2 or 3 based on an assessment of whether the credit risk has been significantly increased in relation to the risk that existed at the date of initial recognition of those financial assets.

Financial assets are classified within the impairment level 1 if they are determined to have low credit risk or if the credit risk has not been significantly increased since initial recognition of those financial assets. For these financial assets the loss allowance is measured at an amount equal to 12-month expected credit losses.

Financial assets are classified within the impairment level 2 if it is estimated that the credit risk has been significantly increased in relation to the risk that existed at the date of initial recognition and for these financial assets the loss allowance is measured at an amount equal to the life time expected credit losses.

Financial assets are classified within the impairment level 3 if it is estimated that the credit risk has been significantly increased, so that the value of these financial assets can be considered to be impaired, and for these financial assets the loss allowance is measured at an amount equal to the life time expected credit losses.

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Financial assets whose credit value is impaired at initial recognition are required to be classified in impairment level 3 and remain at that level throughout the life cycle,

When defining the criteria for assessing the increase in credit risk that are considered significant, all financial assets for which the estimated credit losses are assessed are applied criteria that are in line with the criteria in use in the regular management of credit risks for the related financial assets, including the consideration of qualitative indicators, and in particular:

- changes in the terms of a financial asset established (contracted, determined or otherwise established in accordance with the regulations), which would then differ significantly from market conditions,
- changes in the internal / external credit rating of the debtor,
- significant changes in the economic branch (in financial and / or economic conditions),
- changes in the operating result of the debtor,
- a significant increase in the credit risk of other financial assets of the same borrower,
- changes in the value of the collateral or third-party guarantees,
- past due information,
- other relevant indicators.

Regardless of the criteria used in the regular credit risk management for the related financial assets - if it is not proven otherwise, it is considered that there has been a significant increase in the credit risk of all financial assets that were due on the last day of the reporting period, and contractual payments are more than 30 days past due.

The value of the financial asset is impaired (credit - impaired assets) when one or more events that have a detrimental impact on the estimated future cash flow of that financial asset occur, and then the asset is classified within impairment level 3.

Evidence of the impairment of the value of all financial assets subject to the assessment of expected credit losses include, in particular, available information on the following events:

- significant financial difficulties of the debtor,
- breach of contract or other established conditions, such as default or past due event,
- debt restructuring for economic or legal reasons related to the financial difficulties of the debtor,
- the obvious possibility that bankruptcy proceedings or other forms of financial reorganization will be initiated against the debtor,
- the cessation of the existence of an active market for a financial asset due to the financial difficulties of the borrower,
- purchase or issue of a high-discount financial asset that reflects the incurred credit losses.

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial asset (Continued)

Regardless of the criteria used in the regular credit risk management for the related financial assets - if it is not proven otherwise, it is considered that the financial asset has become a defaulting status (impairment level 3 impairment) if it is due on the last day of the reporting period, and contractual payments are more than 90 days past due.

Expected credit losses of financial assets are estimated on an individual or collective basis for financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events.

The ways in which it is determined whether the financial assets have a low credit risk and the procedures on the basis of which it is estimated whether the credit risk is significantly increased on the reporting date in relation to the date of initial recognition, as well as the procedures for assessing the amount of the impairment, the method and the techniques used to estimate the impairment, the models used to measure expected credit losses are set out in the methodologies for assessing the impairment on the basis of expected credit losses within the relevant organizational units of the Bank, for:

- cash and current accounts with banks,
- foreign exchange reserves,
- financial assets obtained in the framework of activities related to the implementation of monetary policy and instruments envisaged by the Law and other laws,
- IMF membership quota and special drawing rights holdings,
- other assets and receivables.

The nature of **Cash and current accounts held with banks** is such that these assets are currently available, and the expected credit loss for the 12 months and for the entire lifetime of these financial assets is the same. As long as this financial asset is currently available, it is considered that the credit risk is negligible and that the expected credit loss is zero. Also, bearing in mind that assets on current accounts held with banks, whose credit ratings are of the investment rank, these assets have **low** credit risk and it is considered that there has been **no significant increase** in credit risk until their credit rating remains at that level. The inability to dispose of these financial assets for more than one or two working days in case of technical difficulties, is a basic indicator that their value is **credit-impaired**. As additional relevant information for determining the credit risk status, knowing the default in the performance of the obligations of other account holders, i.e. delays in fulfilling the obligations towards the creditors, as well as the information published by the rating agency, such as the assignment of status D and other information on possibility of bankruptcy proceedings.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Credit risk of **foreign exchange reserves** (deposits and securities in foreign currency) is quantified through the *default* model, based on the probability of loss of the counterparty. The parameters for measuring credit risk are as follows:

- the amount exposed to the risk (the maximum amount that may become a loss in the case of a failure to settle the contractual obligation), equal to the market value of the placements,
- probability of default (the probability of a counterparty default), which, depending on the composite credit rating of the bank/issuer, is calculated as an average *default* rate for one year according to rating agencies *Standard & Poor's and Moody's*,
- loss for a given probability, obtained as a 1 - recovery rate (the level by which the loss can be recovered due to the inability of the counterparty to fulfil its obligation) and
- the expected credit loss, which represents the average potential loss of the market value of assets that is the result of an event in the market, and is related to credit risk.

Placements of foreign exchange reserves with banks or issuers whose credit rating of the investment grade has **low** credit risk. The reduction of the credit rating for one level lower than the investment grade is considered a **significant increase** in the credit risk, in which case parameter used is value of probability of loss for the remaining lifetime of the financial asset, that is calculated as the average default rate according to Standard & Poor's and Moody's for the appropriate period,

Any default in the fulfilment of obligations by the counterparty more than one or two working days in the event of technical difficulties, is the basic indicator that the value of the foreign exchange reserves placement is **credit-impaired**. As additional relevant information for determining status of impairment of these assets, may be used cognition about the delay of the bank with which deposits are placed or securities issuers, in fulfilment of obligations towards other creditors, as well as information published by the rating agency, such as the granting of a status D and other information on the possibility of bankruptcy proceedings,

Financial assets acquired in the framework of activities related to the implementation of the monetary policy and instruments envisaged by the Law and other laws are low credit risk assets in cases of settling the debtor's obligations regarding maturity, when issues are not expected on the basis of the borrower's creditworthiness and when they are covered by first class means of security.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Criteria for determining a significant increase in credit risk are the default of debt obligations, the decrease in the creditworthiness of the debtors, the decrease in the value of the collateral, the significantly increase in credit risk in other financial assets of the same debtor, regional or global economic and financial crisis, specific issues related to individual groups of banks, issues in maintaining the current liquidity of the bank and issues related to deterioration of indicators of the risk of business of the borrower.

These financial assets are classified as impairment level 3, if a significant increase in credit risk has occurred, so that the value of these assets can be considered as credit-impaired.

Criteria for determining the default status are: significant problems with the borrower's creditworthiness, restructuring for economic or legal reasons related to the borrower's financial difficulties, the possibility of bankruptcy proceedings or other forms of financial reorganization,

Estimation of expected credit losses in repo transactions of securities and loans for liquidity is calculated as the sum of the value of all possible losses, each weighted the probability of loss, Estimation of probability of default is based on the credit rating, i.e. the rate of *default* rating agencies *Standard & Poor's* and *Moody's* for the Republic of Serbia as an environment in which the Bank's debtors operate, which is corrected by the rate of probability of losing the parent bank, as well as the internal assessment of the rating of banks determined on the basis of monitoring basic risk indicators, business model analysis, corporate governance and internal control assessments, risks that affect solvency, liquidity, capital adequacy and liquidity adequacy, as well as on the basis of operational data that are internally available.

For other assets and liabilities which are subject of credit risk assessment at the level of defined groups and subgroups, the estimate of expected credit losses is based on the average historical loss rates for defined segments, based on the migration matrix, the length of the delay in settling the debtor's obligations and the level of insurance of their collection.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

The following tables show the balance and changes in impairment and provisions on the basis of expected credit losses by type of financial asset and impairment levels for 2019 and 2018:

Cash and cash equivalents

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2019	-	-	871,049	871,049
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Foreign exchange effects	-	-	10,661	10,661
Balance December 31, 2019	-	-	881,710	881,710

Cash and cash equivalents

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2018	-	-	840,057	840,057
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Foreign exchange effects	-	-	30,992	30,992
Balance December 31, 2018	-	-	871,049	871,049

Deposits

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2019	4,263	-	2,772,481	2,776,744
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	30,438	-	-	30,438
Reversed impairments	(28,794)	-	-	(28,794)
Foreign exchange effects	122	-	41,010	41,132
Balance December 31, 2019	6,029	-	2,813,491	2,819,520

Deposits

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2018	5,206	-	2,657,875	2,663,081
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	25,870	-	-	25,870
Reversed impairments	(27,108)	-	-	(27,108)
Foreign exchange effects	295	-	114,606	114,901
Balance December 31, 2018	4,263	-	2,772,481	2,776,744

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Securities

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2019	36,900	-	576,465	613,365
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	32,031	-	-	32,031
Reversed impairments	(15,584)	-	(114,144)	(129,728)
Write-offs	-	-	(3,303)	(3,303)
Balance December 31, 2019	53,347	-	459,018	512,365

Securities

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2018	23,637	-	664,205	687,842
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	24,811	-	-	24,811
Reversed impairments	(11,548)	-	(87,740)	(99,288)
Balance December 31, 2018	36,900	-	576,465	613,365

Credit and placements

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2019	66,925	8,834	1,460,359	1,536,118
Transfer to stage 1	6,902	(6,902)	-	-
Transfer to stage 2	-	8,127	(8,127)	-
Transfer to stage 3	-	-	-	-
Change for the period	6,749	1,993	8,638	17,380
Reversed impairments	(19,331)	(2,845)	(8,202)	(30,378)
Write-offs	-	-	(5,419)	(5,419)
Other	-	-	1,824	1,824
Balance December 31, 2019	61,245	9,207	1,449,073	1,519,525

Credit and placements

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2018	63,974	9,113	1,593,250	1,666,337
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(613)	613	-	-
Transfer to stage 3	(1,928)	-	1,928	-
Change for the period	15,391	113	5,860	21,364
Reversed impairments	(9,899)	(1,005)	(141,788)	(152,692)
Write-offs	-	-	(98)	(98)
Other	-	-	1,207	1,207
Balance December 31, 2018	66,925	8,834	1,460,359	1,536,118

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Other assets

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2019	-	431	287,609	288,040
Transfer to stage 1	56	(56)	-	-
Transfer to stage 2	-	958	(958)	-
Transfer to stage 3	-	-	-	-
Change for the period	-	1,212	12,650	13,862
Reversed impairments	(56)	(1,837)	(9,966)	(11,859)
Foreign exchange effects	-	4	2,022	2,026
Write-offs	-	-	(140)	(140)
Balance December 31, 2019	-	712	291,217	291,929

Other assets

	Thousands of RSD			
	Stage 1	Stage 2	Stage 3	Total
Balance January 1, 2018	6	13	3,275,764	3,275,783
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(1,808)	1,808	-	-
Transfer to stage 3	(933)	-	933	-
Change for the period	2,771	1,013	763	4,547
Reversed impairments	(36)	(2,403)	(2,024,933)	(2,027,372)
Foreign exchange effects	-	-	90,648	90,648
Write-offs	-	-	(1,055,566)	(1,055,566)
Balance December 31, 2018	-	431	287,609	288,040

Other non-credit risk assets include inventories, advances and deferred fees and charges in the total amount as at 31 December 2019 of RSD 3,996,533 thousand (December 31, 2018: RSD 4,396,983 thousand).

During 2019, no reclassification, modification or reprogramming of financial assets was performed. Reprogram of financial assets means changing the contractual terms which are more favourable to the borrower than initially agreed, whereby the financial asset continues to be presented in the same way as under initial conditions.

Also in 2019, there are no financial assets which are credit impaired, and whose conditions have been significantly modified, so that asset has been derecognized and new financial instrument recognised.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Concentration of Credit Risk in Financial Assets

a) Concentration per Region

Thousands of RSD	Serbia	Europe	USA and Canada	Asia	Other	Total
Financial assets						
Cash and current accounts held with banks	12,597,902	129,898,187	143,991	11,558	69,065	142,720,703
Deposits	31,511	164,046,666	43,520,235	-	-	207,598,412
Securities	-	540,190,376	237,165,665	96,325,018	-	873,681,059
Credit and placements	982,245	-	-	-	-	982,245
IMF membership quota and SDR holdings	-	-	8,117,937	-	-	8,117,937
Other assets	1,081,431	757	1,187	-	-	1,083,375
Total as at December 31, 2019	14,693,089	834,135,986	288,949,015	96,336,576	69,065	1,234,183,731
Total as at December 31, 2018	20,342,911	774,495,827	213,990,865	78,217,274	52,759	1,087,099,636

b) Concentration per Industry

	Banks	Public sector (Government and public companies)	Other financial organizations	*Other foreign consumers (except banks)	Retail customers	Other legal entities sector	Total
Financial assets							
Cash and current accounts held with banks	142,720,703	-	-	-	-	-	142,720,703
Deposits	207,584,641	13,771	-	-	-	-	207,598,412
Securities	100,153,315	-	2,756,152	770,771,592	-	-	873,681,059
Credit and placements	538,058	-	-	-	444,187	-	982,245
IMF membership quota and SDR holdings	-	-	8,117,937	-	-	-	8,117,937
Other assets	186,391	673,412	544	118,230	98,593	6,205	1,083,375
Total as at December 31, 2019	451,183,108	687,183	10,874,633	770,889,822	542,780	6,205	1,234,183,731
Total as at December 31, 2018	442,304,523	4,425,788	11,857,179	627,846,176	574,513	91,457	1,087,099,636

* Issuers of securities: the international financial institutions (Supranational), a federal unit of the most developed countries (Subnational-municipal) and financial institutions with state support (Agency).

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Concentration of Credit Risk in Financial Assets (Continued)

c) *Concentration per Credit Rating*

	Thousands of RSD	
	December 31 2019	December 31 2018
Coupon bonds:		
AAA	504,786,260	498,704,305
AA+	92,391,716	36,985,324
AA	106,787,011	112,653,530
AA-	41,484,691	16,183,043
A+	74,361,527	64,660,261
A-	32,956,008	15,473,488
Total	852,767,213	744,659,951
Discounted securities:		
AAA	10,460,858	4,070,249
AA+	-	20,571,028
AA	10,452,988	-
Total	20,913,846	24,641,277
Time deposits:		
No rating (risk-free)*	337,674	362,753
AAA	108,127,234	75,301,832
AA	95,335,851	66,886,628
AA-	3,527,009	2,651,763
Total	207,327,768	145,202,976
Other financial assets exposed to credit risk*	153,174,904	172,595,432
Total	1,234,183,731	1,087,099,636

* Deposits with BIS Basel are not subject to credit rating and are treated as zero risk investments.

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Concentration of Credit Risk in Financial Assets (Continued)

Other financial assets exposed to credit risk that are not subject to the Bank's investment in accordance with the Guidelines for management of foreign exchange reserves and internal instructions:

	Thousands of RSD	
	December 31 2019	December 31 2018
Other financial assets exposed to credit risk		
Funds in current accounts with foreign banks (used for international payment operations):	130,122,804	144,172,468
- Assets in international financial institutions (without rating)	12,127	11,690
- Banks with ratings AAA	24,768,292	20,589,463
- Banks with ratings AA+	104,826,494	123,353,055
- Banks with ratings AA, AA-, A+ and A	162,811	94,138
- Banks with ratings BBB+ and BB+	353,080	124,122
Current account balances with domestic banks	12,597,899	14,531,310
Deposits (interest) given for housing construction of employees	31,512	18,030
Assets valued at amortised cost	-	4,287,362
Funds in special drawing rights	8,117,937	8,074,434
Other assets with no rating	2,304,752	1,511,828
Total	153,174,904	172,595,432

Liquidity risk

Liquidity risk relates both to the risk of the inability to finance the Bank's assets from funds with equal maturities and interest rates, and to the risk of not being able to collect assets at adequate price and within agreed timelines.

The Bank's daily activities are focused on ensuring the necessary liquidity, i.e. settlement of all liabilities when due. The Bank assesses liquidity risk by identifying it and by controlling changes in the sources of financing necessary to attain business targets determined in the Bank's strategy. In addition, as a part of liquidity risk management strategy, the Bank is in possession of a portfolio of liquid assets, including funds held on accounts with foreign banks and bonds issued by international financial institutions, most developed states and/or their federal units and financial institutions supported by those states, as well as the bonds issued on the basis of first-class collaterals, in line with Guidelines for managing foreign exchange reserves.

The following table presents the analysis of maturities of the Bank's assets and liabilities according to their contractually-agreed terms of payment or assumed liquidity. The contractual maturities of assets and liabilities are determined based on the outstanding agreed maturity periods as of the statement of financial position date.

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32. RISK MANAGEMENT POLICIES (Continued)

Liquidity risk (Continued)

	Thousands of RSD						
	Up to one month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without specified maturity	Total
Cash and assets held with banks	339,485,874	-	-	-	-	-	339,485,874
Deposits	105,772,596	75,685,900	25,870,416	-	-	269,500	207,598,412
Receivables for derivatives	-	-	-	-	-	5,259	5,259
Securities	27,367,431	80,089,709	264,252,518	500,275,388	1,819,294	10,974,787	884,779,127
Loans and placements	7,604	-	227	604	443,357	530,453	982,245
IMF membership quota and SDR holdings	8,117,937	-	-	-	-	88,215,065	96,333,002
Other assets	376,013	117,000	-	-	-	590,362	1,083,375
	481,127,455	155,892,609	290,123,161	500,275,992	2,262,651	100,585,426	1,530,267,294
Liabilities under derivatives	-	-	-	-	-	4,809	4,809
Deposits and other liabilities to banks and other financial organisations	424,517,179	-	-	1,485,616	-	225,511,331	651,514,126
Deposits and other financial liabilities to Government and other depositors	289,316,877	14,164,011	-	-	-	93,920,456	397,401,344
Liabilities to the IMF	10,688	-	-	-	-	96,438,236	96,448,924
Dinars in circulation	-	-	-	-	-	209,567,662	209,567,662
Other liabilities	1,167,567	-	-	-	-	619,258	1,786,825
	715,012,311	14,164,011	-	1,485,616	-	626,061,752	1,356,723,690
Liquidity gap as at December 31, 2019	(233,884,856)	141,728,598	290,123,161	498,790,376	2,262,651	(525,476,326)	173,543,604
Cumulative gap as at December 31, 2019	(233,884,856)	(93,156,258)	197,966,903	696,757,279	699,019,930	173,543,604	-
Liquidity gap as at December 31, 2018	(133,192,010)	109,942,033	299,440,296	414,099,836	490,618	(475,863,642)	214,917,131
Cumulative gap as at December 31, 2018	(133,192,010)	(23,249,977)	276,190,319	690,290,155	690,780,773	214,917,131	-

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32. RISK MANAGEMENT POLICIES (Continued)

Liquidity risk (Continued)

The maturity structure of assets and liabilities as at December 31, 2019 points to the existence of a maturity mismatch between the assets and liabilities of the remaining maturity period of up to 1 month, primarily due to the significant share of transaction deposits in dinars of the remaining maturity period of up to 1 month. These liabilities in the total amount of RSD 715,012,311 thousand relate to transaction deposits in dinars (mandatory reserve, central deposits, deposits of the Ministry of Finance and Treasury Department) in the amount of RSD 482,206,123 thousand, other deposits in dinars (deposits of surpluses liquid assets of banks and money in treasury of banks and Treasury Department) in the amount of RSD 124,518,195 thousand, liabilities based on repo transactions in the amount of RSD 70,001,975 thousand, transactions deposits and other deposits in foreign currency of RSD 36,711,398 thousand and other (other transaction deposits, liabilities to IMF and other liabilities) in the amount of RSD 1,382,171 thousand.

The negative liquidity gap arises from the specificity of the Bank as a central bank, its role as the main monetary institution and regulator of the banking system and to its functions autonomously and independently and determine and implement monetary and foreign exchange policies. Dinar liquidity flows in the banking sector depend on the implementation of the monetary policy of the Bank and the activities of the state and in this respect these obligations, in terms of the Bank, cannot be viewed as short-term liabilities in the classic sense, but rather as specific obligations whose amounts and maturities are aligned with the goals and monetary policy measures.

The maturity of most of the Bank's liabilities depends on the nature of monetary policy instruments. Changes related to reserve requirements, repo-transactions and deposit of surplus liquid assets in dinars, as well as government deposits in dinars, do not automatically decrease or increase liquid liability of the Bank, but relate to the most common change in the structure of liabilities of the Bank, given the consequent spilling over of funds between banks, between banks and the state, and the change of certain types of claims on the Bank, and consequently the obligations of the Bank (decrease in placements through repo operations leading to an increase in balances on current accounts of banks and / or deposit account surplus, but the overall balance of the Bank's liability can stay at the same level).

On the other hand, the foreign currency obligations of the Bank, including potential liabilities arising from foreign exchange interventions on the foreign exchange market, are provided by highly liquid foreign assets managed by the Bank in accordance with the Strategic Guidelines for the management of Foreign Exchange Reserves.

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information

The following table presents a comparison of the carrying amounts (as adjusted for impairment) to the fair values of all financial assets and liabilities of the Bank as at December 31, 2019 and 2018:

	Carrying Value		Thousands of RSD Fair Value	
	2019	2018	2019	2018
Financial assets				
Cash and assets held with banks	339,485,874	336,376,900	339,485,874	336,376,900
Deposits	207,598,412	145,221,006	207,598,412	145,221,006
Receivables for derivatives	5,259	43,481	5,259	43,481
Securities	884,779,127	783,908,048	884,779,127	783,908,048
Loans and placements	982,245	1,011,133	982,245	1,011,133
IMF membership quota and SDR holdings	96,333,002	95,504,052	96,333,002	95,504,052
Other assets	1,083,375	500,693	1,083,375	500,693
Total	1,530,267,294	1,362,565,313	1,530,267,294	1,362,565,313
Financial liabilities				
Liabilities under derivatives	4,809	39,851	4,809	39,851
Deposits and other liabilities to banks and other financial organisations	651,514,126	583,320,898	651,514,126	583,320,898
Deposits and other financial liabilities to Government and other depositors	397,401,344	284,237,166	397,401,344	284,237,166
Liabilities to the IMF	96,448,924	95,594,200	96,448,924	95,594,200
Dinars in circulation	209,567,662	182,611,179	209,567,662	182,611,179
Other liabilities	1,786,825	1,844,888	1,786,825	1,844,888
Total	1,356,723,690	1,147,648,182	1,356,723,690	1,147,648,182

Fair Value Hierarchy

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

- Level 1: Quoted market price in an active market for identical instruments.
- Level 2: Valuation inputs which are not quoted market price for identical instruments in market, instead are based on observable inputs, either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets from similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable and available data and as such have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant adjustments or assumptions are required to reflect differences among the instruments.

Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair Value

Fair values of financial assets and liabilities measured at fair value categorized per fair value hierarchy levels in accordance with IFRS 13 are provided below:

As of December 31, 2019	Thousands of RSD			
	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables for derivatives	-	5,259	-	5,259
Securities	863,228,071	-	21,551,056	884,779,127
Total:	863,228,071	5,259	21,551,056	884,784,386
Financial liabilities				
Liabilities under derivatives	-	4,809	-	4,809
Total:	-	4,809	-	4,809
As of December 31, 2018	Thousands of RSD			
	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables for derivatives	-	43,481	-	43,481
Securities	769,301,228	-	10,319,457	779,620,685
Total:	769,301,228	43,481	10,319,457	779,664,166
Financial liabilities				
Liabilities under derivatives	-	39,851	-	39,851
Total:	-	39,851	-	39,851

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair value (Continued)

a) Financial Assets and Liabilities at fair value - required

Receivables under derivative in the amount of RSD 5,259 thousand as at December 31, 2019 (2018: RSD 43,481 thousand) relate to the change in the fair value of derivatives (swap transactions of purchase and sale foreign currency), which is expressed as an asset.

Liabilities for derivatives in the amount of RSD 4,809 thousand as at December 31, 2019 (2018: RSD 39,851 thousand), refer to the negative fair value of derivatives and are stated as liabilities.

Inputs for calculating the fair value of swaps available on the market are the valid reference rate of the NBS, the EURIBOR of the respective maturity and the valid official middle exchange rate EUR/RSD.

Swap transactions are stated at the spot or forward rate at which the Bank is required to repurchase or sell foreign currency and in off-balance sheet records. Swap transactions in off-balance sheet records in the total amount of RSD 8,009,367 thousand (December 31, 2018: RSD 25,181,938 thousand) relate to the swap sales of foreign currency, namely the term part of RSD 4,004,458 thousand (December 31, 2018: spot part 1,418,335 thousand dinars and the term part 11,170,784 thousand dinars) and swap purchase of foreign currency, the term part 4,004,909 thousand dinars (December 31, 2018: spot part 1,418,335 thousand dinars and the term part 11,174,484 thousand dinars).

Securities in the amount of RSD 863,228,071 thousand as at December 31, 2019 (2018: RSD 769,301,228 thousand), assigned to Level 1 of the fair value hierarchy, related to government bonds (including government securities with floating rate note - FRN), securities of Public Sector (Supranational, Subnational, Agencies, Sovereign) including FRN, securities with high quality collateral (covered bonds), as well as state discounted T-bills, measured at fair value based on market prices quoted on financial markets. Securities in the amount of RSD 10,452,988 thousand as at December 31, 2019 are allocated to level 3 of the fair value hierarchy and refer to discounted government securities (Sovereign T-bills) measured at official price for similar instruments where certain adjustments or assumptions are required to reflect differences between instruments, that is their price is adjusted for the spread fixed at the date of purchase of security.

b) Financial Assets and Liabilities at fair value - optional

Securities in the amount of RSD 11,098,068 thousand as at December 31, 2019 (2018: RSD 10,319,457 thousand) are allocated to level 3 of the fair value hierarchy and refer to participation in the Bank's capital for the international settlements of Basel (hereinafter: BIS Basel), where the Bank owns 2,920 shares, The Bank measured these shares at fair value, based on the net present value of BIS Basel shares, discounted by 30%, and in accordance with the notice of BIS Basel submitted to the Bank in 2009, as in April, 2019.

This method of calculating fair value was established on the basis of the decision of the International Court of Justice in The Hague, which refers to the purchase of shares of BIS Basel in 2001 and to the determination of the value of the share of BIS Basel based on its net assets reduced by 30% as a basis for recording all subsequent transactions in bonds, which, as the established practice of central banks.

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

Fair Value Hierarchy of Financial Assets and Liabilities not Measured at Fair Value

The estimated fair values of financial assets and liabilities that are not measured at fair value per fair value hierarchy levels in accordance with IFRS 13 are presented below:

<u>In thousands of RSD</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>	<u>Carrying Value</u>
As at December 31, 2019					
Financial assets					
Cash and current accounts held with banks	-	339,485,874	-	339,485,874	339,485,874
Deposits	-	-	207,598,412	207,598,412	207,598,412
Loans and placements	-	-	982,245	982,245	982,245
IMF membership quota and SDR holdings	-	8,117,937	88,215,065	96,333,002	96,333,002
Other assets	-	-	1,083,375	1,083,375	1,083,375
Total		347,603,811	297,879,097	645,482,908	645,482,908
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	651,514,126	651,514,126	651,514,126
Deposits and other liabilities to the Government and other depositors	-	-	397,401,344	397,401,344	397,401,344
Liabilities to the IMF	-	-	96,448,924	96,448,924	96,448,924
Dinars in circulation	-	-	209,567,662	209,567,662	209,567,662
Other liabilities	-	-	1,786,825	1,786,825	1,786,825
Total:	-	-	1,356,718,881	1,356,718,881	1,356,718,881

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

Fair Value Hierarchy of Financial Assets and Liabilities not Measured at Fair Value (Continued)

<u>In thousands of RSD</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>	<u>Carrying Value</u>
As at December 31, 2018					
Financial assets					
Cash and current accounts held with banks	-	336,376,900	-	336,376,900	336,376,900
Deposits	-	-	145,221,006	145,221,006	145,221,006
Securities	-	4,287,363	-	4,287,363	4,287,363
Loans and placements	-	-	1,011,133	1,011,133	1,011,133
IMF membership quota and SDR holdings	-	8,074,434	87,429,618	95,504,052	95,504,052
Other assets	-	-	500,693	500,693	500,693
Total	-	348,738,697	234,162,450	582,901,147	582,901,147
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	583,320,898	583,320,898	583,320,898
Deposits and other liabilities to the Government and other depositors	-	-	284,237,166	284,237,166	284,237,166
Liabilities to the IMF	-	-	95,594,200	95,594,200	95,594,200
Dinars in circulation	-	-	182,611,179	182,611,179	182,611,179
Other liabilities	-	-	1,844,888	1,844,888	1,844,888
Total	-	-	1,147,608,331	1,147,608,331	1,147,608,331

For financial assets and liabilities that are not measured at fair value, fair values are calculated only for the purpose of disclosing information on the estimated fair values of such instruments. The Bank's management considers that there are no materially significant differences between the carrying values and respective fair values of certain items of financial assets and liabilities given the Bank's specific role of a central bank.

The main methods and assumptions used in estimating the fair values of the financial instruments presented in the table above are provided below as at December 31, 2019 and there were no changes in assumptions as at December 31, 2018.

- The carrying value represents the reasonably estimated fair value for the following financial assets and liabilities, mostly current (up to 1 year from December 31, 2019):
 - Cash and current accounts held with banks in the amount of RSD 339,485,874 thousand
 - Deposits held with banks in the amount of RSD 207,328,912 thousand
 - Loans and placements in the amount of RSD 7,831 thousand
 - Assets to the IMF amounting to RSD 8,117,937 thousand
 - Other assets in the amount of RSD 493,013 thousand
 - Deposits and other liabilities to banks and other financial organizations amounting to RSD 424,517,179 thousand

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

- Deposits and other liabilities to the Government and other depositors in the amount of RSD 303,480,888 thousand
 - Liabilities to the IMF amounting to RSD 10,688 thousand
 - Other liabilities amounting to RSD 1,167,567 thousand
- The estimated fair values for the following financial assets and liabilities, mostly non-current (more than 1 year from December 31, 2019):
- Long-term deposits with banks in the amount of RSD 269,500 thousand, comprise call deposits and dedicated deposits for housing needs, which do not have a specified maturity
 - Loans and placements in the amount of RSD 974,414 thousand, partly (RSD 443,961 thousand) consist of loans and placements whose amounts are regularly revalued using the rate of growth of the consumer price index in the RS and up to the growth rate of average net salary in the economy of the RS, as well as harmonization with the movement of the average contracted price of the construction of a square meter or the change in the exchange rate of the dinar against the euro, and in part (RSD 530,453 thousand) the loan amount fully secured by the deposit
 - IMF membership quota (excluding reserve tranche) in the amount of RSD 88,215,065 thousand, funds that do not have a maturity
 - Other assets in the amount of RSD 590,362 thousand
 - Deposits and other liabilities to banks and other financial organizations, in the amount of RSD 226,996,947 thousand, which mostly (99%) make liabilities without maturity,
 - Deposits and other liabilities to the Government and other depositors in the amount of RSD 93,920,456 thousand of liabilities without maturity
 - Liabilities to the IMF, in the amount of RSD 96,438,236 thousand, liabilities that do not have maturity
 - Dinars in circulation in the amount of RSD 209,567,662 thousand, liabilities that do not have maturity
 - Other liabilities, in the amount of RSD 619,258 thousand

In the opinion of the Bank's management fair value does not deviate significantly from the carrying value stated in the Bank's financial statements, considering the fact that it refers to financial assets and liabilities arising from the Bank's performance as the National Bank and that their amounts and maturity dates primarily depend on objectives and measures of monetary policy, i.e. on December 31, 2019, 99.54% of the amount of assets that are predominantly long-term are without maturity (December 31, 2018: 99.48%), and 99.77% of liabilities that are mostly long-term are without maturity date (December 31, 2018: 99.60%). Fair value hierarchy, of mostly long term financial assets and liabilities not recognized at fair value, is of level 3 in the fair value hierarchy.

In 2019 and 2018 there were no transfers of financial assets and liabilities that are not measured at fair value among the fair value hierarchy levels.

32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk

Interest rate risk is the risk of a decrease in the net result or net worth of the Bank's assets due to changes in interest rates. Interest rate risk exposure depends on the ratio of the Bank's interest rate of sensitive assets and liabilities.

The Bank, as a National Bank of the Republic of Serbia, which performs the functions determined by Law and other laws:

- determines the method of calculating, collecting and paying interest on the Bank's placements and other receivables, as well as on the funds on which the Bank pays interest in order to achieve the objectives of adopted monetary policy (benchmark interest rate, interest rates for reserve requirements, liquidity loans, surplus liquid assets, etc.);
- by holding deposits placed by the state and its institutions, by maintaining funds on current accounts and by time deposits placed with foreign banks as well as by investing into coupon securities, i.e. bonds of governments and central banks issued by most developed states, high-quality financial institutions supported by those states and international financial institutions with adequate rating, and discounted securities pertaining to treasury bills issued by most developed states.

The exposure to interest rate risk as at December 31, 2019 is presented in the following table:

<u>In thousands of RSD</u>	<u>Interest-bearing items</u>	<u>Non-interest bearing items</u>	<u>Total</u>
Financial assets			
Cash and assets held with banks	129,940,720	209,545,154	339,485,874
Deposits	207,351,504	246,908	207,598,412
Receivables for derivatives	-	5,259	5,259
Securities	884,779,127	-	884,779,127
Loans and placements	518,260	463,985	982,245
IMF membership quota and SDR holdings	8,117,937	88,215,065	96,333,002
Other assets	-	1,083,375	1,083,375
Total	1,230,707,548	299,559,746	1,530,267,294
Financial liabilities			
Liabilities under derivatives	-	4,809	4,809
Deposits and other liabilities to banks and other financial organisations	358,371,849	293,142,277	651,514,126
Deposits and other liabilities to the Government and other depositors	46,834,568	350,566,776	397,401,344
Liabilities to the IMF	8,221,189	88,227,735	96,448,924
Dinars in circulation	-	209,567,662	209,567,662
Other liabilities	-	1,786,825	1,786,825
Total	413,427,606	943,296,084	1,356,723,690
Net exposure as at			
December 31, 2019	817,279,942	(643,736,338)	173,543,604
December 31, 2018	616,113,923	(401,344,070)	214,769,853

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32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk

Two basic methods the Bank uses to quantify market risks in respect of financial assets carried at fair value through profit and loss include Value at risk ("VaR") and Stress test. The first is used to anticipate maximum possible loss under normal market conditions, while the second is used to forecast losses under extreme market conditions.

VaR

VaR is the method that predicts with high probability (95% or 99%) total loss which, in the given time interval, will not be exceeded.

Monthly VaR (95%) for total portfolio recalculated in EUR as at December 31, 2019 indicates that under normal market conditions in only 5% of the cases can the Bank expect a loss greater than 1.10% or RSD 13,348 million (EUR 113.51 million).

Total portfolio recalculated in EUR as at December 31, 2018 indicates that under normal market conditions in only 5% of the cases can the Bank expect a loss greater than 1.24% or RSD 13,500 million (EUR 114.22 million).

Stress Test

In case of extreme market risks, VaR is not the most suitable tool to be used in the assessment of potential loss, instead, the stress test is used, which provides a model that approximates the effects contingent on the movements of interest rates and other worst case scenarios on the portfolio value based on duration and convexity of the portfolio.

For the Bank, potential drastic increase in interest rates (drop in prices) is of the highest significance, which is why the Bank needs to calculate what would happen with the portfolio if interest rates increased by 100 base points, i.e. by 1% under the assumption that other variables remained unchanged. The total effect of the increase in interest rates by 100 basis points on the EUR portfolio as of December 31, 2019 would result in a loss of RSD 7,514 million (EUR 63.90 million), on the USD portfolio, a loss of RSD 5,538 million (USD 52.78 million), on the GBP portfolio, a loss of RSD 281 million (GBP 2.04 million), on the CAD portfolio, a loss of RSD 230 million (CAD 2.86 million).

The total effect of the increase in interest rates by 100 basis points on the portfolio as of December 31, 2018 would amount to RSD 9,012 million.

The change of 100 base points in the presented interest rates, exclusive of the effect of changes in interest rates on financial assets (securities) at fair value through other comprehensive income, as of the statement of financial position date, would increase/(decrease) equity and net profit of the Bank in the amounts presented in the following table. This analysis presumes that all other variables, particularly exchange rates, remained unchanged. The analysis was prepared for 2018 on the same way.

32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

<u>In thousands of RSD</u>	December 31, 2019			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp Decrease
Financial assets				
Cash and current accounts held with banks	1,299,407	(1,299,407)	1,299,407	(1,299,407)
Deposits	2,073,515	(2,073,515)	2,073,515	(2,073,515)
Loans and placements	5,183	(5,183)	5,183	(5,183)
IMF membership quota and SDR holdings	81,179	(81,179)	81,179	(81,179)
	<u>3,459,284</u>	<u>(3,459,284)</u>	<u>3,459,284</u>	<u>(3,459,284)</u>
Financial liabilities				
Deposits and other liabilities to banks and other financial organizations	(3,583,718)	3,583,718	(3,583,718)	3,583,718
Deposits and other liabilities to the Government and other depositors	(468,346)	468,346	(468,346)	468,346
Liabilities to the IMF	(82,212)	82,212	(82,212)	82,212
	<u>(4,134,276)</u>	<u>4,134,276</u>	<u>(4,134,276)</u>	<u>4,134,276</u>
Net effect	<u>(674,992)</u>	<u>674,992</u>	<u>(674,992)</u>	<u>674,992</u>

	Thousands of RSD December 31, 2018			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp Decrease
Financial assets				
Cash and current accounts held with banks	1,440,024	(1,440,024)	1,440,024	(1,440,024)
Deposits	1,448,719	(1,448,719)	1,448,719	(1,448,719)
Loans and placements	4,742	(4,742)	4,742	(4,742)
Securities at amortised cost	42,616	(42,616)	42,616	(42,616)
IMF membership quota and SDR holdings	80,744	(80,744)	80,744	(80,744)
	<u>3,016,845</u>	<u>(3,016,845)</u>	<u>3,016,845</u>	<u>(3,016,845)</u>
Financial liabilities				
Deposits and other liabilities to banks and other financial organizations	(2,433,724)	2,433,724	(2,433,724)	2,433,724
Deposits and other liabilities to the Government and other depositors	(354,063)	354,063	(354,063)	354,063
Liabilities to the IMF	(79,723)	79,723	(79,723)	79,723
	<u>(2,867,510)</u>	<u>2,867,510</u>	<u>(2,867,510)</u>	<u>2,867,510</u>
Net effect	<u>149,335</u>	<u>(149,335)</u>	<u>149,335</u>	<u>(149,335)</u>

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32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

Currency Risk

The Bank is exposed to currency risk through transactions performed in foreign currencies. The risk exposure leads to the increase in foreign exchange gains and losses recorded within the income statement. The exposure to foreign currency risk occurs based on monetary assets and liabilities that are not denominated in the Bank's functional currency. The Bank manages foreign currency risk through the policy of determining the currency structure of assets in accordance with the expected future foreign currency liabilities.

The 10% depreciation of RSD value against the EUR, USD, CHF and SDR as at December 31, 2019 would increase equity and increase profit /decrease loss of the Bank in the amount of RSD 100,043,840 thousand (December 31, 2018: RSD 82,189,901 thousand). This analysis assumes that all other variables, in particular interest rates, remained unchanged.

RSD appreciation of 10% against the mentioned currencies would have the exact opposite effect, under the assumption that all other variables remained unchanged.

The analysis of financial assets and liabilities exposure to currency risk per currency as at December 31, 2019 was as follows:

32. RISK MANAGEMENT POLICIES (Continued)

Currency Risk (Continued)

<u>In thousands</u>	<u>EUR</u>	<u>USD</u>	<u>SDR</u>	<u>GBP</u>	<u>CAD</u>	<u>Other currencies</u>	<u>Total foreign currency balance</u>	<u>RSD</u>	<u>Total</u>
Financial assets									
Cash and current accounts held with banks	314,517,751	4,009,565	-	180,022	184,010	7,996,582	326,887,930	12,597,944	339,485,874
Deposits	81,738,397	124,225,966	-	1,615,876	-	454	207,580,693	17,719	207,598,412
Receivables for derivatives	-	-	-	-	-	-	-	5,259	5,259
Securities	496,563,312	330,459,227	11,097,434	22,699,887	23,959,267	-	884,779,127	-	884,779,127
Loans and placements	-	-	-	-	-	-	-	982,245	982,245
IMF membership quota and SDR holdings	-	-	96,333,002	-	-	-	96,333,002	-	96,333,002
Other assets	26,480	539,024	-	72	578	199	566,353	517,022	1,083,375
Total financial assets	892,845,940	459,233,782	107,430,436	24,495,857	24,143,855	7,997,235	1,516,147,105	14,120,189	1,530,267,294
Financial liabilities									
Liabilities under derivatives	-	-	-	-	-	-	-	4,809	4,809
Deposits and other liabilities to banks, other financial organisations	225,312,003	1,026,068	-	6,058	-	111	226,344,240	425,169,886	651,514,126
Deposits and other liabilities to the Government and other depositors	120,538,123	21,891,568	-	54,301	15,356	535,409	143,034,757	254,366,587	397,401,344
Liabilities to the IMF	-	-	96,448,924	-	-	-	96,448,924	-	96,448,924
Dinars in circulation	-	-	-	-	-	-	-	209,567,662	209,567,662
Other liabilities	549,299	111,236	-	6,297	12,967	24,882	704,681	1,082,144	1,786,825
Total financial liabilities	346,399,425	23,028,872	96,448,924	66,656	28,323	560,402	466,532,602	890,191,088	1,356,723,690
Net exposure as at December 31, 2019	546,446,515	436,204,910	10,981,512	24,429,201	24,115,532	7,436,833	1,049,614,503	(876,070,899)	173,543,604
Net exposure as at December 31, 2018	412,332,066	392,419,148	10,227,492	21,873,407	20,584,439	7,164,886	864,601,438	(649,684,306)	214,917,132

The currency mismatch of assets and liabilities stems from the specific nature of the Bank as a central bank, its roles as the main monetary institutions and regulator of the banking system, as well as its function to autonomously and independently determine and implement monetary and foreign exchange policies and, in the framework of this, to manage foreign exchange reserves in such a way that contributes to the unimpeded fulfilment of the obligations of the Republic of Serbia abroad.

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33. ANALYSIS OF THE MATURITY OF ASSETS AND LIABILITIES

The following tables provide classification of assets and liabilities in accordance with the expected period of their realization (current/non-current items) as at December 31, 2019 and 2018:

<u>In thousands of RSD</u>	December 31, 2019			
	Current items (within 12 months)	Non-current items (over 12 months)	Without maturity	Total
ASSETS				
Cash and assets held with banks	339,485,874	-	-	339,485,874
Gold and other precious metals	158,084,189	-	-	158,084,189
Deposits	207,328,912	-	269,500	207,598,412
Receivables for derivatives	-	-	5,259	5,259
Securities	371,709,658	502,094,682	10,974,787	884,779,127
Loans and placements	7,831	443,961	530,453	982,245
IMF membership quota and SDR holdings	8,117,937	-	88,215,065	96,333,002
Intangible assets	-	154,306	-	154,306
Property, plant and equipment	-	19,125,957	-	19,125,957
Investment property	-	407,692	-	407,692
Other assets	4,489,546	-	590,362	5,097,908
TOTAL ASSETS	1,089,223,947	522,226,598	100,585,426	1,712,035,971
LIABILITIES AND EQUITY				
Liabilities				
Liabilities under derivatives	-	-	4,809	4,809
Deposits and other liabilities to banks and other financial organisations	424,517,179	1,485,616	225,511,331	651,514,126
Deposits and other financial liabilities to Government and other depositors	303,480,888	-	93,920,456	397,401,344
Liabilities to the IMF	10,688	-	96,438,236	96,448,924
Provisions	1,569,945	143,136	-	1,713,081
Current tax liabilities	533,905	-	-	533,905
Dinars in circulation	-	-	209,567,662	209,567,662
Other liabilities	1,417,922	-	619,256	2,037,178
TOTAL LIABILITIES	731,530,527	1,628,752	626,061,750	1,359,221,029
NET ASSETS	357,693,420	520,597,846	(525,476,324)	352,814,942

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33. ANALYSIS OF THE MATURITY OF ASSETS AND LIABILITIES (Continued)

In thousands of RSD	December 31, 2018			
	Current items (within 12 months)	Non-current items (over 12 months)	Without maturity	Total
ASSETS				
Cash and assets held with banks	336,376,900	-	-	336,376,900
Gold and other precious metals	87,752,490	-	-	87,752,490
Deposits	144,938,533	18,029	264,444	145,221,006
Receivables for derivatives	-	-	43,481	43,481
Securities	357,050,790	416,537,800	10,319,458	783,908,048
Loans and placements	6,531	474,137	530,465	1,011,133
IMF membership quota and SDR holdings	8,074,434	-	94,155,525	102,229,960
Intangible assets	-	155,940	-	155,940
Property, plant and equipment	-	18,848,674	-	18,848,674
Investment property	-	407,692	-	407,692
Other assets	4,830,951	426	66,301	4,897,678
TOTAL ASSETS	939,030,629	436,442,698	98,653,767	1,474,127,094
LIABILITIES AND EQUITY				
Liabilities				
Liabilities under derivatives	-	-	39,851	39,851
Deposits and other liabilities to banks and other financial organisations	363,413,611	2,439,937	217,467,350	583,320,898
Deposits and other financial liabilities to Government and other depositors	205,706,228	-	78,530,938	284,237,166
Liabilities to the IMF	14,617	-	95,579,583	95,594,200
Provisions	1,138,038	156,157	-	1,294,195
Current tax liabilities	426,343	-	-	426,343
Dinars in circulation	-	-	182,611,179	182,611,179
Other liabilities	1,836,568	-	273,890	2,110,458
TOTAL LIABILITIES	572,535,405	2,596,094	574,502,791	1,149,634,290
NET ASSETS	366,495,224	433,846,604	(475,849,025)	324,492,804

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34. LITIGATIONS

As at 31 December 2019, the Bank manages litigation in the total estimated amount of RSD 10,696,427 thousand, of which RSD 10,696,427 thousand are related to disputes in which the positive outcome for the Bank was assessed, while the amount of RSD 143,136 thousand refers to disputes in which the negative outcome was assessed for the Bank. This amount includes court costs and the estimated amount of possible default interest.

As disclosed in Note 26, as at 31 December 2019, the Bank formed provisions for potential losses that may arise from the litigation in the amount of RSD 143,136 thousand (December 31, 2018, in the amount of RSD 156,157 thousand). Reservation is based on the assessment of legal representatives of the Bank regarding the status of disputes in progress, in the amount that corresponds to the best estimate in terms of expenditure incurred in case of a negative outcome. The Bank's management believes that it is not possible to anticipate the outcome of court cases that are ongoing with a high degree of precision, but estimates that there will be no materially significant losses due to litigation in progress, above the amount for which the provision was made.

35. RELATED PARTY TRANSACTIONS

Transactions with the State and Government Institutions

Pursuant to the Law on the National Bank of Serbia, the Bank is the central bank of the RS and operates in line with the abovementioned and other laws. The Republic of Serbia is the sole owner of the entire Bank's equity,

In carrying out their tasks, the National Bank of Serbia, the bodies of the National Bank of Serbia and the members of those bodies shall neither seek nor take instructions from government bodies and institutions, or other persons, Government bodies and institutions, and other persons may not threaten the autonomy and independence of the National Bank of Serbia nor seek to influence the National Bank of Serbia, the bodies of the National Bank of Serbia, or the members of these bodies in carrying out their tasks. Without prejudice to achieving its objectives, the National Bank of Serbia may act for and on behalf of the Republic of Serbia in international financial organizations and institutions and other forms of international cooperation with the consent of the Government.

In addition to the aforesaid, the Bank performs the following operations on behalf of and for the account of the Republic of Serbia:

- Maintains the system of consolidated Treasury account for assets denominated in dinars and foreign currencies, as well as other accounts prescribed by the law or stipulated by the relevant agreement executed;
- Performs fiscal agent operations on behalf of and for the account of the Republic of Serbia in respect of foreign borrowings of the Republic of Serbia, i.e. operations concerning the withdrawal of borrowed funds and repayment of foreign obligations/liabilities;
- Issues long-term securities related to the Republic of Serbia's membership in the International Monetary Fund (IMF);
- Settles the liabilities of the Republic of Serbia arising from its membership in the IMF;
- Performs other operations for the Republic of Serbia, Government institutions and bodies pursuant to the law or relevant agreement executed.

The Bank calculates and pays interest accrued on the deposits placed by the Government and state institutions in accordance with the relevant agreement executed with the depositor. For the operations and services rendered to the Government and state institutions the Bank charges fees according to the unique tariff list or based on the relevant agreement executed.

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35. RELATED PARTY TRANSACTIONS (Continued)

Transactions with the State and Government Institutions (Continued)

In accordance with the Law, the Bank may not approve loans, borrowings, overdrafts and other credit facilities to the Republic of Serbia, autonomous province or local government unit, state-owned companies and other legal entities founded by the Republic of Serbia, autonomous province or local government unit (i.e. entities with the controlling participation of RS, autonomous province or local government unit), nor may issue guarantees for settling the obligations of these entities or provide their settlement in any other way.

The Bank cannot directly purchase securities issued by the aforementioned entities,

Based on those provisions of the Law, Republic of Serbia, its ministries, agency and state-owned companies are not regarded as related parties of the Bank.

Cover the loss/profit allocation

Pursuant to the Law, after attaining the minimum prescribed amount of the core capital, (Article 77, paragraph 3) and the prescribed amount of the special reserves (Article 77, paragraph 4), profit not resulting from foreign exchange gains and revaluation reserves, the Bank allocates 70% to the Republic of Serbia Budget.

The realized loss of the Bank (paragraph 1 Article 78) is covered by special reserves and basic capital above the minimum basic capital level, and if the mentioned funds are insufficient - from the budget of the Republic of Serbia or from securities for this purpose, under market conditions, issued by the Republic of Serbia and transferred to the Bank (note 30).

Transactions on Behalf of and for the Account of the Government

Transactions on behalf of and for the account of the Government of the Republic of Serbia refer to the payment of old foreign currency savings, loan for economic development, records of public debt of RS and other operations.

These transactions are stated within the Bank's off-balance sheet items, given the fact that the Bank acts as an agent in such transactions or merely maintains records of the public debt.

Transactions with the Key Management Personnel

According to the Bank, key management refers to: the Chairman and members of the Council, Governor, Vice Governors, Secretary General, directors and deputy directors of organizational units, and heads of departments.

The Bank's management members receive compensation for their services to the Bank and do not hold equity investments in the Bank.

In addition to net salaries of the management, the Bank also pays contributions on behalf of the management in accordance with the legal provisions of the Republic of Serbia. The net salaries of the management are also subject to personal income tax charged annually. The Bank neither makes payments to its management subsequent to the termination of their employment, nor compensates their work in shares or equity interests.

35. RELATED PARTY TRANSACTIONS (Continued)

Transactions with the Key Management Personnel (Continued)

The summary of remuneration paid to key management of the Bank is provided in the following table:

<u>In thousands of RSD</u>	<u>Gross remunerations disbursed in 2019</u>	<u>Net remunerations disbursed in 2019</u>	<u>Gross remunerations disbursed in 2018</u>	<u>Net remunerations disbursed in 2018</u>
Position				
Governor	8,236	7,141	7,914	6,703
Director of Administration for Supervision of Financial Institutions*	-	-	1,385	1,195
Vice Governors	20,737	16,682	17,075	13,881
Secretary General	3,722	2,637	3,523	2,539
Directors General, Directors of organizational units within the headquarters, Directors of branch offices and Managing Director of ZIN	101,004	73,189	106,743	77,694
Deputies and assistants to Directors General and Directors General of organizational units, Directors of branch offices and Managing Director of ZIN	87,864	62,421	84,109	59,842
Department Heads	189,495	135,095	183,976	130,812
Chairman and members of the Bank Council of the Governor	15,054	10,082	13,904	9,888
Total for the period	426,112	307,247	418,629	302,554

* The Rules that regulate the internal organization of the Bank during 2018 abolished the Administration for Supervision as one of the main organizational units.

36. RECONCILIATION OF RECEIVABLES AND PAYABLES

Pursuant to Article 18 of the Law on Accounting, the Bank reconciled balances of receivables and payables with creditors and debtors. The balances of RSD-denominated receivables were reconciled as at October 31, 2019, while the balances of receivables denominated in foreign currencies were reconciled as at December 31, 2019.

Out of the total amount of receivables of RSD 1,459,187,100 thousand, for which the Bank delivered outstanding item statement forms for balance confirmation/reconciliation, receivables in the amount of RSD 1,458,000,029 thousand or 99,92% of the total receivables were reconciled, while the amount of RSD 1,187,071 thousand remained unreconciled, but the outstanding item statement (OIS) forms include the note that, in the event the form with the response is not returned within 10 days from the receipt, the Bank shall deem the balance stated to be reconciled. The Bank does not perform balance reconciliation of receivables due from its employees and legal entities in bankruptcy or those subject to liquidation procedure.

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36. RECONCILIATION OF RECEIVABLES AND PAYABLES (Continued)

The Bank received the settlement forms from legal entities in the total amount of RSD 100,175,662 thousand, while the amount of RSD 27,675 thousand or 0,03% was not confirmed.

37. SUBSEQUENT EVENTS

Up to the issue date of these financial statements, there have been no materially significant events subsequent to the balance sheet date, which would require correction of the accompanying financial statements.

Due to the COVID19 outbreak, there have been some changes in the financial markets after the balance sheet date, whose potential financial effects on the Bank's result we are estimating and analysing continually in order to respond timely.

38. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of statement of financial position components denominated in foreign currencies into dinars as at December 31, 2019 and 2018 were as follows:

<u>In Dinars</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
USD	104,9186	103,3893
EUR	117,5928	118,1946
GBP	137,5998	131,1816
CAD	80,4108	75,8630
CHF	108,4004	104,9779
SDR	145,0846	143,7928

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