



KPMG d.o.o. Beograd  
Milutina Milankovića 1J  
11070 Belgrade  
Serbia

Tel.: +381 (0)11 20 50 500  
Fax: +381 (0)11 20 50 550  
[www.kpmg.com/rs](http://www.kpmg.com/rs)

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 2020;

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

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

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 2020, and of its financial performance and its cash flows for the 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 International Code of Ethics for

Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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.

## Responsibilities 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 Responsibilities for the Audit of the Financial Statements

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

statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report;

- 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.

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## KPMG d.o.o. Beograd

### *Signed on the Serbian original*

Nikola Đenić  
Licenced Certified Auditor

Belgrade, 5 April 2021

*This is a translation of the original Independent Auditor's Report issued in the Serbian language.  
All due care has been taken to produce a translation that is as faithful as possible to the original.*

*However, if any questions arise related to interpretation of the information  
contained in the translation, the Serbian version of the document shall prevail.*

*We assume no responsibility for the correctness of the translation of the Bank's financial statements.*

## KPMG d.o.o. Beograd



Nikola Đenić  
Licenced Certified Auditor

Belgrade, 5 April 2021

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**TRANSLATION**

**NATIONAL BANK OF SERBIA**

**Financial Statements for the  
Year Ended December 31, 2020**

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**BALANCE SHEET****As at 31 December 2020****(in RSD thousand)**

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>ASSETS</b>			
Cash and current accounts held with banks	16, 3.4	394,424,179	339,485,874
Gold and other precious metal	17, 3.5	208,078,233	158,084,189
Deposits	18, 3.3	199,312,402	207,598,412
Receivables for derivatives	3.3	6,959	5,259
Securities	19, 3.3	920,174,460	884,779,127
Loans and placements	20, 3.3	16,375,557	982,245
IMF membership quota and SDR holdings	21, 3.3	91,475,050	96,333,002
Intangible assets	22, 3.7	288,428	154,306
Property, plant and equipment	22, 3.7	19,157,663	19,125,957
Investment property	22, 3.7	407,692	407,692
Other assets	23	6,315,841	5,079,908
<b>TOTAL ASSETS</b>		<b><u>1,856,016,464</u></b>	<b><u>1,712,035,971</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities under derivatives	3.3	69,442	4,809
Deposits and other liabilities to banks and other financial organisations	24	748,773,102	651,514,126
Deposits and other liabilities to Government and other depositors	25	404,601,318	397,401,344
Liabilities to the IMF	26, 3.3	91,585,239	96,448,924
Provisions	27, 3.11	1,516,661	1,713,081
Current tax liabilities	28, 3.9	379,091	533,905
Dinars in circulation	29	266,698,917	209,567,662
Other liabilities	30	2,348,795	2,037,178
<b>Total liabilities</b>		<b><u>1,515,972,565</u></b>	<b><u>1,359,221,029</u></b>
<b>Equity</b>			
State-owned capital		187,698,256	178,253,299
Reserves		160,572,376	137,331,122
Retained earnings		(8,226,733)	37,230,521
<b>Total equity</b>	31	<b><u>340,043,899</u></b>	<b><u>352,814,942</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>1,856,016,464</u></b>	<b><u>1,712,035,971</u></b>

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

## INCOME STATEMENT

For the period from 1 January to 31 December 2020

(in RSD thousand)

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Interest income		13,989,388	13,819,737
Interest expenses		(4,272,933)	(4,791,022)
<b>Net interest income</b>	4, 3.1	<b>9,716,455</b>	<b>9,028,715</b>
Fee and commission income		4,998,408	5,278,587
Fee and commission expenses		(536,144)	(399,376)
<b>Net fee and commission income</b>	5, 3.1	<b>4,462,264</b>	<b>4,879,211</b>
Net (loss)/gains from financial instruments measured at fair value through profit and loss	6	(49,747)	238,803
Net losses from derecognition of financial instruments measured at fair value through other comprehensive income	7	(2,802,286)	(1,648,710)
Net exchange rate(loss)/gains and from contractual currency clause	8, 3.2	(16,548,851)	24,557,536
Net (expense) of impairment/income from decrease in impairment of financial assets	9, 3.3, 32	(46,774)	107,047
Other operating income	10	5,595,301	6,640,257
Salaries, salary compensations and other personal expenses	11, 3.10	(5,208,114)	(4,836,290)
Depreciation costs	12, 3.7	(1,256,823)	(1,041,398)
Other income	13	1,735,234	4,114,586
Other expenses	14	(3,444,301)	(4,275,331)
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(7,847,642)</b>	<b>37,764,426</b>
Income tax	28, 3.9	(379,091)	(533,905)
<b>(LOSS)/PROFIT AFTER TAX</b>	31	<b>(8,226,733)</b>	<b>37,230,521</b>

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**STATEMENT OF OTHER COMPREHENSIVE INCOME****In the period from 1 January to 31 December 2020****(in RSD thousand)**

	<u>2020</u>	<u>2019</u>
<b>(Loss)/Profit for the period</b>	<b>(8,226,733)</b>	<b>37,230,521</b>
<b>Components of other comprehensive income which cannot be reclassified to profit or loss:</b>		
Increase in revaluation reserves based on intangible assets and fixed assets	-	8,559
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	402,181	778,612
Actuarial gains/(losses)	179,412	(245,197)
<b>Components of other comprehensive income that may be reclassified to profit or loss:</b>		
Positive/(Negative) effects of change in value of debt instruments measured at fair value through other comprehensive income	3,745,188	(181,890)
<b>Other comprehensive income for the period</b>	<b>4,326,781</b>	<b>360,084</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>(3,899,952)</u></b>	<b><u>37,590,605</u></b>

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## TRANSLATION

## NATIONAL BANK OF SERBIA

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020.

(in RSD thousand)

	State owned capital	Special reserves	Revaluation reserves	Fair Values Reserves	Actuarial gains (losses)	Retained earnings (losses)	Total
<b>Balance as at 1 January, 2019</b>	<b>171,128,873</b>	<b>104,711,573</b>	<b>13,903,869</b>	<b>4,117,780</b>	<b>49,505</b>	<b>30,581,204</b>	<b>324,492,804</b>
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 reserve 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
<b>Balance as at 31 December, 2019</b>	<b>178,253,299</b>	<b>118,899,884</b>	<b>13,912,428</b>	<b>4,714,502</b>	<b>(195,692)</b>	<b>37,230,521</b>	<b>352,814,942</b>
<b>Balance as at 1 January, 2020</b>	<b>178,253,299</b>	<b>118,899,884</b>	<b>13,912,428</b>	<b>4,714,502</b>	<b>(195,692)</b>	<b>37,230,521</b>	<b>352,814,942</b>
Distribution of profit from previous year (Note 31)	9,444,957	18,914,473	-	-	-	(37,230,521)	(8,871,091)
Increase in fair values reserve of equity instruments measured at fair value through other comprehensive income	-	-	-	402,181	-	-	402,181
Actuarial gains	-	-	-	-	179,412	-	179,412
Increase in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	3,745,188	-	-	3,745,188
Net loss for the current year	-	-	-	-	-	(8,226,733)	(8,226,733)
<b>Balance as at 31 December, 2020</b>	<b>187,698,256</b>	<b>137,814,357</b>	<b>13,912,428</b>	<b>8,861,871</b>	<b>(16,280)</b>	<b>(8,226,733)</b>	<b>340,043,899</b>

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 Governor

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**CASH FLOW STATEMENT****In the period from 1 January to 31 December 2020**

<b><u>(in RSD thousands)</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Interest receipts	13,673,217	14,372,474
Fee and commission receipts	5,478,083	5,363,829
Inflows from sales of products and services (Institute for Manufacturing Banknotes and Coins)	6,117,860	7,483,851
Inflows from other operating activities	2,076,487	3,723,447
Receipts from dividends and profit sharing	-	103,539
<i>Cash inflow from operating activities</i>	<i>27,345,647</i>	<i>31,047,140</i>
Interest payments	(3,378,889)	(6,540,126)
Fee and commission payments	(534,024)	(503,196)
Payments for operating expenses	(10,701,611)	(10,678,589)
<i>Cash outflow from operating activities</i>	<i>(14,614,524)</i>	<i>(17,721,911)</i>
Net inflow in deposits received	116,553,387	162,535,160
Net inflow/(outflow) in loans and placements	8,363,538	(63,154,978)
Net outflow in securities and other financial assets not intended for investment	(34,772,415)	(104,492,117)
Net increase from operating activities before income tax	102,875,633	8,213,294
Income tax paid	(533,905)	(426,343)
Payment of the distributed result-transfer to the budget of the Republic of Serbia	(8,871,090)	(9,268,467)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>93,470,638</b>	<b>(1,481,516)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Inflows from sales of intangible assets, property, plant and equipment	-	203
Outflow for sale of intangible assets, property, plant and equipment	(1,538,978)	(1,251,591)
<b>Net cash outflow from investing activities</b>	<b>(1,538,978)</b>	<b>(1,251,388)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Net outflow from short-term borrowings	(1,034,094)	(954,373)
<b>Net cash outflow from financing activity</b>	<b>(1,034,094)</b>	<b>(954,373)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>90,897,566</b>	<b>(3,687,277)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>347,603,811</b>	<b>344,451,334</b>
Foreign exchange gains/(losses), net	(36,376,806)	6,839,754
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 2d)</b>	<b>402,124,571</b>	<b>347,603,811</b>

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Jorgovanka Tabaković, PhD  
Governor

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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 (Federative National Republic of Yugoslavia), 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)**

- Issues and revokes payment institutions licenses for the provision of payment services, and electronic money institutions licenses for the issuance of electronic money, supervises the provision of payment services and the issuance of electronic money, and performs other tasks, in accordance with the law governing payment services;
- 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, 2020 the Bank had 2,372 employees (December 31, 2019 2,390 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 presented in thousands of dinars (RSD). The Dinar is the Bank's functional currency and the official presentation currency in the Republic of Serbia

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

**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, 2020:

- 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 and mainly relate to financial instruments that qualify for hedge accounting. As the Bank has not applied hedge accounting so far, these changes are not applicable to the Bank’s operations. 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 – the changes relate to the amendment of the definition of the concept of materiality, practical guidelines in the application of the concept of materiality, with additional focus on application of materiality in disclosures of accounting policies;
- 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;
- Amendment to IFRS 4 - extension of the temporary exemption from the application of IFRS 9 - and requires entities to apply IFRS 9 for annual periods beginning after 1 January 2023 (instead of 1 January 2021);

The Bank's management has considered the impact of these standards and interpretations on the Bank's financial statements. Given the nature of the Bank's operations, these standards, interpretations and amendments to published standards are not estimated to have a material impact on the Bank's financial statements.

By the balance sheet date, the following standards, interpretations and amendments to published standards have been issued but have not entered into force:

- Amendment to IFRS 16 – incentives related to leasing arising as a result of the COVID-19 pandemic, is applied for annual periods beginning on or after 1 June 2020 with earlier application permitted;
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - “Reference Interest Rate Reform - Phase Two”, effective for annual periods beginning on or after 1 January 2021 - changes to the IBOR reform relate to the modification of financial assets, financial liabilities and leasing liabilities, special hedge accounting requirements and disclosure requirements through the application of IFRS 7 that reflect changes in the field of hedge modification and accounting;
- Amendments to IAS 37 - Onerous (Harmful) Contracts - costs of performing contracts, effective for annual periods beginning on or after 1 January 2022;

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

**e) New standards, interpretations and amendments to published standards (Continued)**

- Amendments to IAS 16 – Property, Plant and Equipment: Pre-service Revenue, effective for annual periods beginning on or after 1 January 2022 – Amendments to clarify the accounting treatment of net inflows from the sale of manufactured assets during the period of funds in the state of use;
- Amendments to IFRS 3 - references to the conceptual framework in IFRS standards, applicable to annual periods beginning on or after 1 January 2022;
- Annual Improvements Cycle IFRS 2018-2020, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 1 - classification of liabilities as short-term and long-term, effective for annual periods beginning on or after 1 January 2023;
- IFRS 17 and amendments to IFRS 17 - “Insurance Contracts”, effective for annual periods beginning on or after 1 January 2023;
- Sale or contribution of assets in relation to an investor and an associate or joint venture (Amendments to IFRS 10 and IAS 28) - optionally with an indefinite effective date and
- 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.

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 and the position Cash and cash Equivalents in the Balance Sheet are as follows:

In thousands of RSD

	<b>Cash Flow Statement In period from 1 January to December 31, 2020-cash and cash equivalents at the end of period</b>	<b>Cash Flow Statement In period from 1 January to December 31, 2019-cash and cash equivalents at the end of period</b>
Cash and current accounts held with banks (Note 16)	394,424,179	339,485,874
Funds in SRD (Note 21)	7,700,392	8,117,937
<b>Total</b>	<b>402,124,571</b>	<b>347,603,811</b>

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**2. BASIS 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 2019. 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, 2020.

**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 are the 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 the bank changes the business model for managing financial instruments.

### 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 if they reflection the business model of managing financial assets holding for collection and sale and if the cash flows arising consist exclusively and interest collection on outstanding amount principal on a fixed date. Financial assets carried at fair value through other income refer to government bonds, securities of the public sector, 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 2020, 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 measurement at amortized cost or fair value measurement through comprehensive income, 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 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.

##### *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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

**3.3. Financial instruments (Continued)**

*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 derivate 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 at initial cost 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 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 financial assets are initially recognized at fair value plus transaction costs, while financial assets at fair value through profit or loss are initially recognized at fair value without the stated costs.

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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

#### 3.3. Financial instruments (Continued)

##### *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 possibilities 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.

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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

**3.3. Financial instruments (Continued)**

*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.

Financial assets that have been written off, and which are still the 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 held with banks**

Cash and cash equivalents include cash and balances on current accounts. Cash and current accounts held with 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.

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 effects of estimating the cost of refining gold, as at 31 December 2020, are presented in Note 17.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

#### **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.

Valuation of used real estate and investment real estate was performed by hiring an external independent appraiser using market (comparable prices of real estate subject to purchase / sale in the local market, with adjustments related to the physical condition of a particular property), yield (determining the present value of future cash flows during the economic life of funds by applying a capitalization rate that reflects the risk of achieving projected cash flows and time value of money) and cost approach (costs of building a new building, which deduct three possible forms of obsolescence: physical, functional and economic).

The increase in the revalued value of land that is reported in the Bank's accounting records, i.e. the recording of the difference between the estimated value and the current book value is expressed through an increase in revaluation reserves. The decrease in value on the basis of revaluation is recorded by a proportional decrease in the purchase value and accumulated depreciation of fixed assets, and the increase in value on the basis of revaluation - by a proportional increase in the purchase value and accumulated depreciation 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.

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 2020, 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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

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

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.

**3.10. 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.10. Employee Benefits (Continued)**

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, 2020.

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, 2020, 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, 2020, provision was made for funds for the payment of compensation for the days of unused annual leave for 2020, which employees did not use during 2020. 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 unused annual leave only in case of unused vacation in case of termination of employment.

#### **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, 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.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

##### *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.

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 cautious 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.

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4. NET INTEREST INCOME

	Thousand of RSD	
	Year ended	
	December 31,	
	2020	2019
Interest income from:		
Debt securities:		
- in dinars	3,179,814	-
- in foreign currency	9,883,186	11,057,800
Deposits placed:		
- in dinars	126	132
- in foreign currencies	861,031	2,659,795
Loans approved:		
- in dinars	32,249	101,501
Repurchase transactions	32,052	-
Other placements:		
- in dinars	689	81
- in foreign currency	241	428
<i>Total</i>	<i>13,989,388</i>	<i>13,819,737</i>
Interest expenses arising from:		
Securities in dinars	(1,458,343)	-
Deposits in dinars:		
- required special reserve of banks in dinars	(611,779)	(2,058,633)
- surplus liquid assets of banks	(577,367)	(563,252)
- transaction deposits	(343)	(1,111)
Deposits in foreign currencies:		
- time deposits	(60,616)	(225,655)
- demand deposits	(2,625)	(19,309)
Negative interest on financial assets in foreign currency	(1,293,582)	(1,051,682)
Repurchase transactions	(226,302)	(712,532)
Liabilities to IMF	(16,509)	(82,029)
Borrowings	(22,314)	(70,425)
Other	(3,153)	(6,394)
<i>Total</i>	<i>(4,272,933)</i>	<i>(4,791,022)</i>
<b>Net interest income</b>	<b>9,716,455</b>	<b>9,028,715</b>

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4. NET INTEREST INCOME (Continued)

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,	
	2020	2019
Interest income arising from:		
Financial assets measured at amortized cost	4,106,202	2,833,488
Financial assets at fair value through other comprehensive income	9,883,186	10,986,249
<b>Total</b>	<b>13,989,388</b>	<b>13,819,737</b>
Interest expenses arising from:		
Financial liabilities measured at amortized cost	(4,075,251)	(4,791,022)
Financial assets at fair value through other comprehensive income	(197,682)	-
<b>Total</b>	<b>(4,272,933)</b>	<b>(4,791,022)</b>
<b>Net interest income</b>	<b>9,716,455</b>	<b>9,028,715</b>

5. NET FEE AND COMMISSION INCOME

	Thousands of RSD	
	Year ended, December 31,	
	2020	2019
Fee and commission income in dinars:		
- fees for RTGS and clearing operations	1,410,390	1,358,538
- fees for enforced collection	1,311,908	1,848,806
- fees for supervision over insurance operations	485,054	443,235
- other fees in dinars	353,069	328,003
Fee and commission income in foreign currencies		
- fees for foreign exchange and currency transactions	1,226,187	1,115,113
- operating fees in the name and on behalf of third parties	101,291	119,159
- other fees in foreign currency	110,509	65,733
<b>Total</b>	<b>4,998,408</b>	<b>5,278,587</b>
Fee and commission expenses in dinars:		
- commission based on the sales of bill of exchange forms	(12,537)	(15,923)
- other fees and commissions in dinars	(1,905)	(2,057)
Fee and commission expenses in foreign currencies:		
- foreign account maintenance fees and foreign payment transactions	(69,789)	(69,223)
- fee for foreign exchange and currency transactions	(451,913)	(312,173)
<b>Total</b>	<b>(536,144)</b>	<b>(399,376)</b>
<b>Net fee and commission income</b>	<b>4,462,264</b>	<b>4,879,211</b>

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 (LOSS)/GAINS FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS**

	Thousands of RSD	
	Year ended	
	December 31,	
	2020	2019
Income from sales and changes in fair value of swap transactions	126,673	501,765
Expenses from sales and changes in fair value of swap transactions	(176,420)	(262,962)
<b>Net (expense)/income</b>	<b>(49,747)</b>	<b>238,803</b>

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

	Thousands of RSD	
	Year ended	
	December 31,	
	2020	2019
Income from derecognition (sale) of financial assets measured at FVOCI	2,246,292	1,846,852
Loss from derecognition (sale) of financial assets measured at FVOCI	(5,048,578)	(3,495,562)
<b>Net loss</b>	<b>(2,802,286)</b>	<b>(1,648,710)</b>

**8. NET (EXPENSE)/INCOME FROM FOREIGN EXCHANGE RATE AND EFFECTS OF CONTRACTED FOREIGN CURRENCY**

	Thousands of RSD	
	Year ended	
	December 31,	
	2020	2019
Net income/(expenses) from foreign exchange rate and effect of contracted foreign currency:		
- cash and current accounts held with banks	(694,654)	(1,230,466)
- gold and other precious metals	19,969,093	18,446,336
- deposits, loans and placements	(5,272,343)	1,086,623
- securities	(31,236,473)	4,579,659
- IMF assets and liabilities	5,407	(409)
- liabilities arising from received deposits and other liabilities to banks, financial organizations, state and other depositors	705,968	1,705,059
- other assets and other liabilities	(25,849)	(29,266)
<b>Total net (expense)/income from exchange differences and effects of contracted currency clause</b>	<b>(16,548,851)</b>	<b>24,557,536</b>

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**9. NET (EXPENSE) OF IMPAIRMENT/ INCOME FROM DECREASE IN IMPAIRMENT OF FINANCIAL ASSETS**

**a) Structure of Income and Expenses**

<b><u>In thousands of RSD</u></b>	<b><u>2020</u></b>	<b><u>Year ended, December 31, 2019</u></b>
Income from impairment allowances:		
- of financial assets at amortized cost	61,933	185,175
- of financial assets at FVOCI	18,493	15,584
Income from collected written-off receivables	258	-
<i>Total</i>	<u>80,684</u>	<u>200,759</u>
Expenses from impairment:		
- of financial assets at amortized cost	(116,026)	(61,681)
- of financial assets at FVOCI	(11,432)	(32,031)
<i>Total</i>	<u>(127,458)</u>	<u>(93,712)</u>
<b>Net (expense) of impairment/ income from decrease in impairment of financial assets</b>	<b><u>(46,774)</u></b>	<b><u>107,047</u></b>

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9. NET (EXPENSE) OF IMPAIRMENT/ 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
<b>Balance as at January 1, 2020</b>	<b>881,710</b>	<b>2,819,520</b>	<b>459,018</b>	<b>1,519,525</b>	<b>342,625</b>	<b>6,022,398</b>
Change for the period-financial assets	-	25,066	57,166	20,488	13,306	116,026
Change for the period-supplies	-	-	-	-	4,525	4,525
Reversed impairments	-	(26,145)	-	(22,627)	(13,161)	(61,933)
Foreign exchange effects	(67,489)	(248,411)	-	-	(14,344)	(330,244)
Write-offs	-	-	-	(11,712)	(7,705)	(19,417)
Other	-	-	-	1,004	(30)	974
<b>Balance as at December 31, 2020</b>	<b>814,221</b>	<b>2,570,030</b>	<b>516,184</b>	<b>1,506,678</b>	<b>325,216</b>	<b>5,732,329</b>
<b>Balance as at January 1, 2019</b>	<b>871,049</b>	<b>2,776,744</b>	<b>576,465</b>	<b>1,536,118</b>	<b>356,060</b>	<b>6,116,436</b>
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)
<b>Balance as at December 31, 2019</b>	<b>881,710</b>	<b>2,819,520</b>	<b>459,018</b>	<b>1,519,525</b>	<b>342,625</b>	<b>6,022,398</b>

\* 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.

10. OTHER OPERATING INCOME

<u>In thousands of RSD</u>	<u>2020</u>	<u>Year ended December 31, 2019</u>
Income from operations – ZIN	5,210,591	6,244,358
Income from the sale of bill of exchange forms	125,370	159,226
Rental income	17,128	19,965
Increase in the value of inventories	177,009	5
Dividend income	-	102,874
Other income	65,203	113,829
<b>Other operating income</b>	<b>5,595,301</b>	<b>6,640,257</b>

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.

Dividend income in 2019 in the amount of 102,874 thousand dinars, entirely refers to participations in the capital of the Bank for International Settlements, Basel and on that basis there were no realized income during 2020.

11. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

<u>In thousands of RSD</u>	<u>2020</u>	<u>Year ended December 31, 2019</u>
Salaries, salary compensations, taxes and contributions	5,017,926	4,488,998
Losses from provisions		
for retirement and other employee benefits	12,259	186,709
Temporary and seasonal employees	56,717	54,200
Jubilee awards	29,651	35,393
Financial aid to employees	26,027	27,740
Retirement benefits	54,602	33,731
Remunerations to the Council members	10,932	9,519
<b>Total salaries, salary compensations and other personal expenses</b>	<b>5,208,114</b>	<b>4,836,290</b>

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**12. DEPRECIATION COSTS**

<b><u>In thousands of RSD</u></b>	<b><u>2020</u></b>	<b><u>Year ended December 31, 2019</u></b>
Depreciation and amortization of:		
- intangible assets	100,394	91,374
- building properties	233,803	225,695
- equipment	921,656	723,355
- other assets	970	974
<b>Total depreciation costs</b>	<b><u>1,256,823</u></b>	<b><u>1,041,398</u></b>

**13. OTHER INCOME**

<b><u>In thousands of RSD</u></b>	<b><u>2020</u></b>	<b><u>Year ended December 31, 2019</u></b>
Income from reversal of provisions for litigations (Note 27)	36,915	47,698
Income from registered fixed assets and small inventory	6,352	16,518
Other	1,691,967	4,050,370
<b>Total other income</b>	<b><u>1,735,234</u></b>	<b><u>4,114,586</u></b>

Of the total amount of other income the largest part in amount of RSD 1,589,408 thousand (2019: RSD 3,020,701 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>2020</u>	<u>Year ended December 31, 2019</u>
Cost of materials	1,724,039	2,081,447
Cost of production services:		
- transportation services	11,588	1,339
- telecommunication services	37,219	46,363
- automatic data transfer	143,014	133,899
- maintenance	403,131	355,483
- rental costs	7,982	7,698
- marketing and advertising	623	3,998
- official gazettes and magazines	6,097	5,496
- finishing costs – ZIN	11,636	25,761
- other services	29,078	27,477
Non-material expenses:		
- business travel expenses	3,106	30,514
- employee commuting allowance	62,959	89,014
- fees to voluntary pension funds	114,972	112,774
- employee professional training costs	2,253	6,972
- intellectual services	346,011	349,975
- security services (for property and money)	43,699	37,452
- public utilities	15,387	16,094
- entertainment	6,775	11,405
- insurance premiums	65,865	63,041
- other non-material expenses	83,796	88,982
Tax expenses:		
- property tax	46,511	46,988
- value added tax payable	139,292	119,534
- other taxes payable	24,260	22,325
Contributions paid	8,984	9,351
Other costs	57,799	258,460
Decrease in the value of inventories	41	224,714
Provisions for litigations (Note 27)	22,212	66,431
Other expenses	25,972	32,344
<b>Total other expenses</b>	<b>3,444,301</b>	<b>4,275,331</b>

## 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, 2020</u>
<b>Balance as at December 31, 2020</b>						
<b>Financial assets</b>						
Cash and current accounts held with banks	16	394,424,179	-	-	-	394,424,179
Deposits	18	199,312,402	-	-	-	199,312,402
Receivables for derivatives		-	6,959	-	-	6,959
Securities	19	119,725,851	-	788,948,361	11,500,248	920,174,460
Loans and placements	20	16,375,557	-	-	-	16,375,557
IMF membership quota and SDR holdings	21	91,475,050	-	-	-	91,475,050
Other assets	23	1,163,521	-	-	-	1,163,521
<b>Total</b>		<b>822,476,560</b>	<b>6,959</b>	<b>788,948,361</b>	<b>11,500,248</b>	<b>1,622,932,128</b>
<b>Financial liabilities</b>						
Liabilities from derivatives		-	69,442	-	-	69,442
Deposits and other liabilities to banks and other financial organisations	24	748,773,102	-	-	-	748,773,102
Deposits and other liabilities to Government and other depositors	25	404,601,318	-	-	-	404,601,318
Liabilities to the IMF	26	91,585,239	-	-	-	91,585,239
Dinars in circulation	29	266,698,917	-	-	-	266,698,917
Other liabilities	30	2,114,806	-	-	-	2,114,806
<b>Total</b>		<b>1,513,773,382</b>	<b>69,442</b>	<b>-</b>	<b>-</b>	<b>1,513,842,824</b>

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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, 2019</u>
<b>Balance as at December 31, 2019</b>						
<b>Financial assets</b>						
Cash and current accounts 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
<b>Total</b>		<b>645,482,908</b>	<b>5,259</b>	<b>873,681,059</b>	<b>11,098,068</b>	<b>1,530,267,294</b>
<b>Financial liabilities</b>						
Liabilities from derivatives		-	4,809	-	-	4,809
Deposits and other liabilities to banks and 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
<b>Total</b>		<b>1,356,718,881</b>	<b>4,809</b>	<b>-</b>	<b>-</b>	<b>1,356,723,690</b>

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16. CASH AND CURRENT ACCOUNTS HELD WITH BANKS

<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Cash on hand:		
- in local currency	33	46
- in foreign currency	234,958,695	196,765,125
<i>Total</i>	<i>234,958,728</i>	<i>196,765,171</i>
Current accounts:		
- with domestic banks and Bank	10,932,910	12,597,899
- with foreign banks	149,346,762	131,004,514
Allowance for impairment	(814,221)	(881,710)
<i>Total</i>	<i>159,465,451</i>	<i>142,720,703</i>
<b>Total cash and current accounts held with banks</b>	<b><u>394,424,179</u></b>	<b><u>339,485,874</u></b>

SDR holdings at the IMF's current account (including reserve tranche), amounted to RSD 7,700,392 thousand (December 31, 2019: RSD 8,117,937 thousand), are presented in Note 21.

17. GOLD AND OTHER PRECIOUS METALS

<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Gold and standard tradable gold bullions	75,302,675	51,256,095
Gold and substandard gold bullions	131,655,665	105,937,133
Other precious metals	1,119,893	890,961
<b>Total gold and other precious metals</b>	<b><u>208,078,233</u></b>	<b><u>158,084,189</u></b>

The Bank estimated the cost of refining as at 31 December 2020, in order to assess the material significance of the estimated amounts in the overall financial statements and to consider the possible need to adjust the fair value of gold and other precious metals. Estimated refinement costs as at 31 December 2020, in the amount of RSD 150,363 thousand (31 December 2019: RSD 153,325 thousand), do not represent a material amount within the meaning of IAS 8 "Accounting Policies, Changes in Accounting Policies and Errors".

18. DEPOSITS

<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Deposits:		
- time deposits	201,865,558	210,400,213
- other deposits	16,874	17,719
<i>Total</i>	<u>201,882,432</u>	<u>210,417,932</u>
Allowance for impairment of time deposits	<u>(2,570,030)</u>	<u>(2,819,520)</u>
<b>Total deposits</b>	<b><u>199,312,402</u></b>	<b><u>207,598,412</u></b>

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 investments 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, 2020</u>	<u>December 31, 2019</u>
<b>Securities in RSD:</b>		
Securities measured at amortized cost	120,242,035	459,018
Allowance for impairment of securities measured at amortized cost	<u>(516,184)</u>	<u>(459,018)</u>
<i>Total Securities in RSD</i>	<u>119,725,851</u>	-
<b>Securities in foreign currency:</b>		
Securities measured at FVOCI:		
- mandatory	788,948,361	873,681,059
- optionally	11,500,248	11,098,068
<i>Total securities in foreign currency</i>	<u>800,448,609</u>	<u>884,779,127</u>
<b>Total securities</b>	<b><u>920,174,460</u></b>	<b><u>884,779,127</u></b>
<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Securities in RSD:</b>		
<b>Securities measured at amortized cost</b>		
Banknotes and bonds of domestic banks in bankruptcy and liquidation	459,018	459,018
Coupon bonds	116,501,292	-
Discount securities	3,281,725	-
Allowance for impairment of securities measured at amortized cost	<u>(516,184)</u>	<u>(459,018)</u>
<b>Total</b>	<b><u>119,725,851</u></b>	<b><u>-</u></b>

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19. SECURITIES (Continued)

Coupon bonds in the amount of 116,501,292 thousand dinars refer to government and corporate bonds, while discount securities in the amount of 3,281,725 thousand dinars refer to treasury bills.

Coupon and discount securities in dinars, in response to COVID - 19, were obtained by the Bank through permanent purchases from banks on the secondary market, in order to support the smooth functioning of the interest rate and credit channel of monetary policy during the pandemic

The Bank's regulations governing monetary operations, i.e. the conditions and manner of conducting open market operations, provide criteria under which the Bank may accept securities issued by domestic companies, as explained in Note 32.

<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Securities in foreign currency:</b>		
<b>Securities measured at FVOCI - Mandatory</b>		
Coupon bonds	687,731,433	852,767,213
Discount securities	101,216,928	20,913,846
<b>Total</b>	<b>788,948,361</b>	<b>873,681,059</b>

Coupon Securities in foreign currency relate to foreign government bonds (including government securities with floating interest rates *Floating Rate Notes* - FRN), foreign public sector securities (Supranational, Subnational, Agencies, Sovereign) including FRN, as well as foreign securities with high quality collateral (covered bonds) in the amount of 687,731,433 thousand dinars (December 31, 2019: 852,767,213 thousand dinars). Securities are denominated in EUR, USD, GBP and CAD.

Discount securities in foreign currency relate to foreign state discount securities (T-bills) of maturity up to one year, in the amount of RSD 101,216,928 thousand (December 31, 2019: RSD 20,913,846 thousand), and represent short-term securities denominated in EUR and USD.

The change in fair value, as well as the expected credit losses of these assets are stated within the capital fair value reserve position (note 31).

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

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19. SECURITIES (Continued)

	December 31, 2020	December 31, 2019
<b>Equity securities measured at FVOCI (optionally)</b>		
Equity investments in foreign currencies:		
- Bank for International Settlements, Basel	11,499,577	11,097,434
- S.W.I.F.T. scri	671	634
<b>Total</b>	<b>11,500,248</b>	<b>11,098,068</b>

As at 31 December 2020, the increase in reserves based on the change in the fair value of equity securities amounted to RSD 402,181 thousand (31 December 2019: RSD 778,612 thousand). Bank for International Settlements, Basel did not pay dividends for 2019/20. year, taking into account the activities of central banks as creators of prudential policy, supporting banks not to pay dividends to preserve capital, so that in 2020 there were no revenues from dividends (2019: 102,874 thousand dinars).

20. LOANS AND PLACEMENT

<u>In thousands of RSD</u>	December 31, 2020	December 31, 2019
Loans and placements:		
- loans to banks in bankruptcy and liquidation	415,116	426,765
- loans to commercial banks	530,465	530,465
- loans by repo transactions	15,433,873	-
- loans from primary emission	956,639	956,639
- housing loans approved to employees	539,786	580,296
- other placements	6,356	7,605
<i>Total</i>	<i>17,882,235</i>	<i>2,501,770</i>
Allowance for impairment of loans and placements:		
- loans to banks in bankruptcy and liquidation	(415,116)	(426,765)
- loans from primary emission	(956,639)	(956,639)
- housing loans approved to employees	(134,923)	(136,121)
<i>Total</i>	<i>(1,506,678)</i>	<i>(1,519,525)</i>
<b>Total loans and placements</b>	<b>16,375,557</b>	<b>982,245</b>

In order to support the domestic financial system, overall economic flows and faster recovery of the private sector from the crisis caused by the COVID-19 pandemic, the Bank provided the banking sector with additional dinar liquidity through direct repo operations (transaction maturity three months).

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21. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Membership quota ( <i>Holdings of Currency</i> )	83,774,658	88,215,065
Membership quota ( <i>Reserve Tranche</i> )	6,444,734	6,786,332
SDR holdings ( <i>SDR Holdings</i> )	<u>1,255,658</u>	<u>1,331,605</u>
<b>Total</b>	<b><u>91,475,050</u></b>	<b><u>96,333,002</u></b>

As at December 31, 2020, the Republic of Serbia's membership quota in the International Monetary Fund (including reserve tranche) amounted to RSD 90,219,392 thousand (December 31, 2019: RSD 95,001,397 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, 2019: SDR 654,800 thousand).

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## 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>
<b>Cost/revalued amount</b>								
<b>Opening balance as at January 1, 2019</b>	<b>2,630,793</b>	<b>75,765,191</b>	<b>12,937,537</b>	<b>327,417</b>	-	<b>91,660,938</b>	<b>407,692</b>	<b>2,181,243</b>
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
<b>Balance as at December 31, 2019</b>	<b>2,630,793</b>	<b>75,877,858</b>	<b>13,775,988</b>	<b>356,646</b>	-	<b>92,641,285</b>	<b>407,692</b>	<b>2,258,977</b>
Additions	-	-	95,014	-	1,101,861	1,196,875	-	220,233
Transfer from investment in progress	-	250,199	837,264	114	(1,087,577)	-	-	-
Sales, transfers, disposals and shortages	-	-	(224,870)	(119)	-	(224,989)	-	(96)
Surpluses and subsequently registered assets	-	-	6,303	50	-	6,353	-	-
Other	-	-	-	-	(14,284)	(14,284)	-	14,283
<b>Balance as at December 31, 2020</b>	<b>2,630,793</b>	<b>76,128,057</b>	<b>14,489,699</b>	<b>356,691</b>	-	<b>93,605,240</b>	<b>407,692</b>	<b>2,493,397</b>
<b>Accumulated Depreciation/Amortization</b>								
<b>Opening balance as at January 1, 2019</b>	-	<b>65,584,125</b>	<b>7,204,954</b>	<b>23,185</b>	-	<b>72,812,264</b>	-	<b>2,025,303</b>
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)	-	-
<b>Balance as at December 31, 2019</b>	-	<b>65,809,820</b>	<b>7,679,292</b>	<b>26,216</b>	-	<b>73,515,328</b>	-	<b>2,104,671</b>
Depreciation	-	233,803	921,662	970	-	1,156,435	-	100,394
Sales, transfers, disposals and shortages	-	-	(224,168)	(18)	-	(224,186)	-	(96)
<b>Balance as at December 31, 2020</b>	-	<b>66,043,623</b>	<b>8,376,786</b>	<b>27,168</b>	-	<b>74,447,577</b>	-	<b>2,204,969</b>
<b>Current value as at December 31, 2020</b>	<b>2,630,793</b>	<b>10,084,434</b>	<b>6,112,913</b>	<b>329,523</b>	-	<b>19,157,663</b>	<b>407,692</b>	<b>288,428</b>
<b>Current value as at December 31, 2019</b>	<b>2,630,793</b>	<b>10,068,038</b>	<b>6,096,696</b>	<b>330,430</b>	-	<b>19,125,957</b>	<b>407,692</b>	<b>154,306</b>

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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 2020 carried at fair value per hierarchy level in accordance with IFRS 13 can be presented as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Land	-	-	2,630,793	<b>2,630,793</b>
Buildings	-	-	10,084,434	<b>10,084,434</b>
Other fixed assets – works of art, museum values and numismatic collection	-	-	287,340	<b>287,340</b>
Equipment – period furniture	-	-	196,730	<b>196,730</b>
Investment property	-	-	407,692	<b>407,692</b>
<b>December 31, 2020</b>	-	-	<b>13,606,989</b>	<b>13,606,989</b>

**Overview of Valuation Techniques and Significant Unobservable Inputs**

The Bank's management believes that there were no movements and changes in the market during 2020 that would lead to significant deviations in value and that the assessment made by an independent external appraiser as at 31 December 2018 and December 2, 2019 reflects the carrying amount as at 31 December 2020.

The fair value of the revaluation assets as at 31 December 2020 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:

<b><u>In thousands of RSD</u></b>	<b><u>Land</u></b>	<b><u>Buildings</u></b>	<b><u>Equipment and other fixed assets</u></b>	<b><u>Investment Property</u></b>	<b><u>Total</u></b>
Fair value as of December 31, 2020	2,630,793	10,084,434	484,070	407,692	13,606,989
The present value of revaluated assets at the cost method as of December 31, 2020	<b>967,585</b>	<b>9,718,565</b>	<b>169,407</b>	<b>298,243</b>	<b>11,153,800</b>

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23. OTHER ASSETS

<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Advances paid	446,162	103,732
Fee and commission receivables	196,188	203,267
Receivables from the sales of finished products and services	163,137	93,861
Receivables from employees	82,471	97,350
Other receivables from operations	771,578	745,351
Inventories		
- Finished products	925,747	921,677
- Work in progress	240,126	165,119
- Semi-finished products	332,651	246,399
- Material	1,926,353	1,329,290
- Spare parts	244,299	238,518
- Commemorative coins and commercial packages of cash	155,695	158,952
- Gold and silver, which is not cashable	587,108	587,108
- Other	310,946	264,844
<i>Total inventories</i>	<i>4,722,925</i>	<i>3,911,907</i>
Deferred other expenses	34,602	31,474
Other assets	223,994	235,591
<b>Total</b>	<b>6,641,057</b>	<b>5,422,533</b>
Allowances for impairment of:		
Fee and commission receivables	(68,762)	(69,526)
Receivables from the sales of finished products and services	(19,108)	(21,296)
Receivables from employees	(1,191)	(1,190)
Other receivables from operations	(39,928)	(40,693)
Inventories	(51,457)	(50,696)
Other assets	(144,770)	(159,224)
<b>Total</b>	<b>(325,216)</b>	<b>(342,625)</b>
<b>Total other assets</b>	<b>6,315,841</b>	<b>5,079,908</b>

Out of the total amount of Other assets t, RSD 1,198,211 thousand are measured at amortized cos (2019: RSD 1,114,964 thousand).

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

<u>In thousands of RSD</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Transaction deposits in dinars:		
- obligatory reserves of the banks	251,925,795	217,460,314
- central deposits	10,932,910	12,597,899
- other transaction deposits in dinars	411	411
<i>Total</i>	<i>262,859,116</i>	<i>230,058,624</i>
Transaction deposits in foreign currencies:		
- obligatory reserves of the banks	267,917,102	224,788,544
- other transaction deposits in foreign currencies	7,309,660	1,182,824
<i>Total</i>	<i>275,226,762</i>	<i>225,971,368</i>
<b>Total transaction deposits</b>	<b>538,085,878</b>	<b>456,029,992</b>
Other deposits in dinars:		
- liquid asset surpluses	117,378,956	67,867,405
- cash in vaults of commercial banks	60,729,496	55,202,436
<i>Total</i>	<i>178,108,452</i>	<i>123,069,841</i>
Other deposits in foreign currencies:		
- time deposits	82,148	180,542
- other deposits	1,511,131	192,326
<i>Total</i>	<i>1,593,279</i>	<i>372,868</i>
<b>Total other deposits</b>	<b>179,701,731</b>	<b>123,442,709</b>
Liabilities arising from repurchase transactions	30,000,165	70,001,975
Other financial liabilities	985,328	2,039,450
<b>Total other liabilities</b>	<b>30,985,493</b>	<b>72,041,425</b>
<b>Total deposits and other liabilities to banks and other financial organizations</b>	<b>748,773,102</b>	<b>651,514,126</b>

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

*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.

On the amount of realized average daily balance of allocated dinar required reserves in the accounting period that does not exceed the amount of calculated dinar required reserves, in 2020, until March 17, the Bank paid interest in the amount of 0.75% annually, from 18. March to April 17, 2020 in the amount of 0.50% annually, from April 18 to June 17, 2020 in the amount of 0.25% annually, and from June 18 to the end of 2020. year in the amount of 0.10% annually (2019: 1.25% by August 17, 1.00% by November 17 and 0.75% by 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

<b><u>In thousands of RSD</u></b>	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
Transaction deposits in dinars:		
- deposits of the Ministry of Finance and Treasury Department	204,298,435	251,338,175
- other transaction deposits in dinars	2,607,828	809,324
<i>Total</i>	<i>206,906,263</i>	<i>252,147,499</i>
Transaction deposits in foreign currencies:		
- deposits of the Ministry of Finance and Treasury Department	105,723,940	30,008,970
- other transaction deposits in foreign currencies	20,225	29,236
<i>Total</i>	<i>105,744,165</i>	<i>30,038,206</i>
<b>Total transaction deposits</b>	<b>312,650,428</b>	<b>282,185,705</b>
Other deposits in dinars:		
- cash held with the Treasury Department	1,611,813	1,448,354
- other deposits in dinars	6,671	2,279,714
<i>Total</i>	<i>1,618,484</i>	<i>3,728,068</i>
Other deposits in foreign currencies:		
- deposits of the Revolving Loan Fund	791,769	728,258
- special-purpose deposits – Ministry of Finance and Treasury Department	34,544,722	39,677,969
- other special-purpose deposits	24,087,128	27,584,147
- special purpose deposit – donations for direct and indirect users of budget funds of the Republic of Serbia, i.e. local authorities	5,252,765	4,897,043
- deposits related to the seized foreign currency	3,312,029	3,134,500
- time deposits	1,518,386	19,561,274
- other deposits in foreign currencies	20,675,887	15,741,166
- other financial liabilities	149,720	163,214
<i>Total</i>	<i>90,332,406</i>	<i>111,487,571</i>
<b>Total other deposits</b>	<b>91,950,890</b>	<b>115,215,639</b>
<b>Total deposits and other liabilities to Government and other depositors</b>	<b>404,601,318</b>	<b>397,401,344</b>

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26. LIABILITIES TO THE IMF

<b><u>In thousands of RSD</u></b>	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
Securities and other liabilities regulating the Bank's status with the IMF	83,776,522	88,217,047
Liabilities to the IMF in SDR	7,807,364	8,221,189
Interest accrued	1,353	10,688
<b>Total liabilities to the IMF</b>	<b><u>91,585,239</u></b>	<b><u>96,448,924</u></b>

27. PROVISIONS

<b><u>In thousands of RSD</u></b>	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
Provisions for employee retirement benefits	708,902	864,337
Provisions for employee jubilee awards	469,959	528,527
Provisions for unused vacations	223,930	177,081
Provisions for litigations	113,870	143,136
<b>Total provisions</b>	<b><u>1,516,661</u></b>	<b><u>1,713,081</u></b>

Movements on Provisions

	<b>Thousands of RSD</b>				
	<b><u>Provisions for retirement benefits</u></b>	<b><u>Provisions for jubilee awards</u></b>	<b><u>Provisions for unused vacations</u></b>	<b><u>Provisions for litigations</u></b>	<b><u>Total</u></b>
<b>Balance as at January 1, 2019</b>	<b><u>578,752</u></b>	<b><u>400,078</u></b>	<b><u>159,208</u></b>	<b><u>156,157</u></b>	<b><u>1,294,195</u></b>
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)
<b>Balance as at December 31, 2019</b>	<b><u>864,337</u></b>	<b><u>528,527</u></b>	<b><u>177,081</u></b>	<b><u>143,136</u></b>	<b><u>1,713,081</u></b>
<b>Balance as at January 1, 2020</b>					
Change for the period (Note 11, 14 and 31)	<b><u>864,337</u></b>	<b><u>528,527</u></b>	<b><u>177,081</u></b>	<b><u>143,136</u></b>	<b><u>1,713,081</u></b>
Release of provisions during the period	-	-	55,569	22,212	77,781
Reversal of provisions (Note 13)	-	-	-	(14,563)	(14,563)
	(155,435)	(58,568)	(8,720)	(36,915)	(259,638)
<b>Balance as at December 31, 2020</b>	<b><u>708,902</u></b>	<b><u>469,959</u></b>	<b><u>223,930</u></b>	<b><u>113,870</u></b>	<b><u>1,516,661</u></b>

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**27. PROVISIONS (Continued)**

**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 5.042% (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 6.24% for 2021 and a rate of 7.00% after 2021;
- 3) Employee fluctuation rate: 0.29 % for ZIN and 1.14% 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 2020;
- 4) Disability rate: average rate of 0.25% for ZIN and 0.22% 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 2020;
- 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.

**Provisions for Litigations**

Provisions for litigations totalling RSD 113,870 thousand as at December 31, 2020 (December 31, 2019: RSD 143,136 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 labour 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 unfavourable for the Bank.

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**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 10. Expenses incurred in connection with revenues generated on the market are partly 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 2020 as per the final calculation amounted to RSD 379,091 thousand (December 31, 2019: RSD 533,905 thousand).

**Tax balance for the National Bank of Serbia**

	<b>Thousands od RSD</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Income earned in the market		
- revenues from the sale of products and services	5,417,567	6,518,481
Expenses arising in relation to the income earned in the market		
- Salaries, salary compensations and other personal expenses	857,172	717,703
- Depreciation costs	442,451	347,702
- Other operating expenses	1,590,673	1,893,711
Tax base	<b>2,527,271</b>	<b>3,559,365</b>
Statutory income tax rate (effective tax rate)	15%	15%
Income tax expense	<b>379,091</b>	<b>533,905</b>

**29. DINARS IN CIRCULATION**

Cash in circulation totalling RSD 266,698,917 thousand (December 31, 2019: 209,567,662 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).

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**30. OTHER LIABILITIES**

	<b>Thousands of RSD</b>
<b>December 31, 2019</b>	<b>December 31, 2019</b>
Trade payables:	
- domestic	159,108
- foreign	31,880
Advances received:	
- in dinars	203,259
- in foreign currencies	8,541
Liabilities for employee salaries	232,865
Foreign currency liabilities to domestic banks	
for replacement of foreign currency cash	397,471
Inheritance liabilities	16,609
Other accruals	22,190
Taxes and contributions payable	86,324
Other liabilities from operations	1,190,548
<b>Total other liabilities</b>	<b>2,348,795</b>
	<b>2,037,178</b>

**31. EQUITY**

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

	<b>Thousands of RSD</b>
<b>December 31, 2020</b>	<b>December 31, 2019</b>
State-owned capital	187,698,256
Reserves:	
- Special reserves	137,814,357
- Revaluation reserves	13,912,428
- Fair value reserves	8,861,871
- Actuarial losses	(16,280)
Retained (losses)/earnings	(8,226,733)
<b>Total equity</b>	<b>340,043,899</b>
	<b>352,814,942</b>

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 187,698,256 thousand as at December 31, 2020, (December 31, 2019: RSD 178,253,299 thousand) which is above the prescribed threshold.

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**31. EQUITY (Continued)**

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 2020, the Bank made a loss after tax in the amount of RSD 8,226,733 thousand (in 2019 made a profit in the amount of RSD 37,230,521 thousand).

The table below shows the distribution of profit for the previous year, 2019, harmonized with the Decision on adoption of financial statements of the National Bank of Serbia for 2019, while loss coverage for 2020 is part of the Decision on adoption of financial statements of the National Bank of Serbia for 2020. year, which will be subject to adoption by the e Council of the Governor of the National Bank of Serbia :

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**31. EQUITY (Continued)**

	<b>Thousands of RSD</b>	
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
(Losses)/Gains arising from exchange rate gains and from agreed currency clause	(16,548,851)	24,557,536
Profit arising from revaluation reserves	-	-
1. Total (losses)/gains profit arising from exchange rate from agreed currency clause and revaluation reserves	(16,548,851)	24,557,536
2. Profit not originating from exchange rate gains, gains from agreed currency clause and revaluation reserves	8,322,118	12,672,985
<b>(Loss)/Profit (1+2)</b>	<b>(8,226,733)</b>	<b>37,230,521</b>
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
1.2) special reserve increase 66.7%	-	16,379,877
	-	<b>24,557,536</b>
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
2.2) core capital increase 10%	-	1,267,299
2.3) special reserve increase 20%	-	2,534,597
	-	<b>12,672,985</b>
Total core capital increase (1.1+2.2)	-	9,444,958
Total special reserve( decrease)/increase (1+2/1.2+2.3)	(8,226,733)	18,914,474
Transfer to the Budget of the Republic of Serbia (2.1)	-	8,871,090
<b>(Loss)/Profit</b>	<b>(8,226,733)</b>	<b>37,230,521</b>

In 2020, the Bank, on the basis of operating operations, i.e. activities that can be influenced, generated a profit in the amount of 8,701,209 thousand dinars. In accordance with the Law on Corporate Income Tax, the Bank has an obligation to pay income tax for 2020 in the amount of RSD 379,091 thousand. In this regard the profit that did not arise from exchange rate differences, the effects of the currency clause and revaluation reserves amounts to RSD 8,322,118 thousand. Operating profit was realized both on the basis of monetary operations and on the basis of foreign exchange operations - on the basis of measures and activities that was undertook in the pandemic 2020, as well as on the basis of efficient management of foreign exchange reserves. On this basis, net profit was achieved despite the environment of long-standing low and negative interest rates on the international financial market. However, the overall result, which includes negative exchange rate differences, due to exchange rate movements on the international market that the Bank cannot influence, was negative. The loss incurred by the Bank in 2020 is the result exclusively of net expenses based on exchange rate differences. Negative exchange rate differences that determined the total financial loss relate to the deterioration of the USD against RSD (a total of 8.8% in 2020), which affected the reduction of the dinar equivalent of dollar financial assets and gold, the price of which is usually expressed in the international market USD. At the same time, due to a significant increase in the price of gold in USD on the international market (total growth in 2020 was 24.2%) due to global uncertainty caused by the pandemic, the overall effect of changes in gold in RSD was positive and significantly mitigated the negative effects of the USD of financial result.

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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 Strategic Guidelines define the criteria for foreign exchange reserve placement, aims of using the reserves, as well as the global investment framework and more. Tactical guidelines for foreign exchange reserve management are developed on the basis of the Strategic Guidelines, and are adopted by the Bank's Executive Board at the proposal of the Bank's Investment Committee. The Tactical Guidelines for managing foreign exchanges reserves are carried out by the Management of Foreign Exchange Reserves Department within the Monetary and Foreign Exchange Operations Sector. The Risk Management and Risk Control Division, operates within the Management of Foreign Exchange Reserves Department, in charge of creating and maintaining the framework for managing the financial risks of foreign exchange reserves, monitors and analyzes these risks on a daily basis and reports monthly to the Executive Board.

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.

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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, 2020 and 2019:

	Thousands of RSD	Thousands of RSD
	December 31, 2020	December 31, 2019
<b>Financial assets</b>		
Cash and current accounts held with banks	394,424,179	339,485,874
Deposits	199,312,402	207,598,412
Receivables for derivatives	6,959	5,259
Securities	920,174,460	884,779,127
Loans and placements	16,375,557	982,245
IMF membership quota and SDR holdings	91,475,050	96,333,002
Other assets	1,163,521	1,083,375
<b>Total financial assets</b>	<b>1,622,932,128</b>	<b>1,530,267,294</b>
<b>Financial liabilities</b>		
Liabilities under derivatives	69,442	4,809
Deposits and other liabilities to banks and other financial organisations	748,773,102	651,514,126
Deposits and other financial liabilities to Government and other depositors	404,601,318	397,401,344
Liabilities to the IMF	91,585,239	96,448,924
Dinars in circulation	266,698,917	209,567,662
Other liabilities	2,114,806	1,786,825
<b>Total financial liabilities</b>	<b>1,513,842,824</b>	<b>1,356,723,690</b>

**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, 2020 and December 31, 2019.

*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, 2020
<b>FINANCIAL ASSETS</b>				
<b>Cash and current accounts held with banks</b>				
Gross carrying amount	159,465,451	-	814,221	160,279,672
Impaired amount	-	-	(814,221)	(814,221)
<b>Net carrying amount</b>	<b>159,465,451</b>	<b>-</b>	<b>-</b>	<b>159,465,451</b>
<b>Deposits</b>				
Gross carrying amount	199,317,120	-	2,565,312	201,882,432
Impaired amount	(4,718)	-	(2,565,312)	(2,570,030)
<b>Net carrying amount</b>	<b>199,312,402</b>	<b>-</b>	<b>-</b>	<b>199,312,402</b>
<b>Securities measured at amortised cost</b>				
Gross carrying amount	119,783,017	-	459,018	120,242,035
Impaired amount	(57,166)	-	(459,018)	(516,184)
<b>Net carrying amount</b>	<b>119,725,851</b>	<b>-</b>	<b>-</b>	<b>119,725,851</b>
<b>Securities measured at FVOCI</b>				
Net carrying amount	788,948,361	-	-	788,948,361
Provisions for expected credit losses*	46,286	-	-	46,286
<b>Gross carrying amount (Note 19)</b>	<b>788,948,361</b>	<b>-</b>	<b>-</b>	<b>788,948,361</b>
<b>Loans and placements</b>				
Gross carrying amount	16,371,396	70,333	1,440,506	17,882,235
Impaired amount	(66,878)	(15,245)	(1,424,555)	(1,506,678)
<b>Net carrying amount</b>	<b>16,304,518</b>	<b>55,088</b>	<b>15,951</b>	<b>16,375,557</b>
<b>IMF membership quota and SDR holdings</b>				
	<b>7,700,392</b>	<b>-</b>	<b>-</b>	<b>7,700,392</b>
<b>Other assets</b>				
Gross carrying amount	1,075,918	6,705	354,656	1,437,279
Impaired amount	-	(1,322)	(272,436)	(273,758)
<b>Net carrying amount</b>	<b>1,075,918</b>	<b>5,383</b>	<b>82,220</b>	<b>1,163,521</b>

\* In accordance with IFRS 9, the effect of impairment of debt securities at fair value through other comprehensive income is recognized through other comprehensive income and income statement, and they do not reduce the carrying amount of securities in the balance sheet.

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

*Credit quality of financial assets (Continued)*

	Stage 1	Stage 2	Stage 3	December 31, 2019
<b>FINANCIAL ASSETS</b>				
<b>Cash and current accounts held with banks</b>				
Gross carrying amount	142,720,703	-	881,710	143,602,413
Impaired amount	-	-	(881,710)	(881,710)
Net carrying amount	<b>142,720,703</b>	-	-	<b>142,720,703</b>
<b>Deposits</b>				
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	<b>207,598,412</b>	-	-	<b>207,598,412</b>
<b>Securities measured at amortised cost</b>				
Gross carrying amount	-	-	459,018	459,018
Impaired amount	-	-	(459,018)	(459,018)
Net carrying amount	-	-	-	-
<b>Securities measured at FVOCI</b>				
Gross carrying amount	873,627,712	-	-	873,627,712
Provisions for expected credit losses	53,347	-	-	53,347
Gross carrying amount (Note 19)	<b>873,627,712</b>	-	-	<b>873,627,712</b>
<b>Loans and placements</b>				
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	<b>908,972</b>	<b>47,234</b>	<b>26,039</b>	<b>982,245</b>
<b>IMF membership quota and SDR holdings</b>				
	<b>8,117,937</b>	-	-	<b>8,117,937</b>
<b>Other assets</b>				
Gross carrying amount	995,965	6,777	372,562	1,375,304
Impaired amount	-	(712)	(291,217)	(291,929)
Net carrying amount	<b>995,965</b>	<b>6,065</b>	<b>81,345</b>	<b>1,083,375</b>

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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.

The Bank's placements in dinar securities refer to government and corporate securities acquired through permanent purchases from banks on the secondary market as part of monetary policy measures taken in response to the COVID-19 pandemic (these transactions have not been performed so far). According to external rating agencies S&P and Fitch, the Republic of Serbia has a credit rating of BB + with a stable outlook, while according to Moody's it has a credit rating of Ba3 with a positive outlook. The condition for accepting corporate bonds in monetary operations is that the company, their issuer, has a credit rating of the Business Registers Agency at least at the level of "(D) acceptable" creditworthiness.

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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. loss allowance 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.

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 consistent 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.

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**32. RISK MANAGEMENT POLICIES (Continued)**

**Credit risk (Continued)**

***Impairment of financial assets (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 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.

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) 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 held 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.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

*Impairment of financial asset (Continued)*

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.

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 carrying amount 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 carrying amount 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.

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**32. RISK MANAGEMENT POLICIES (Continued)**

**Credit risk (Continued)**

***Impairment of financial asset (Continued)***

The credit quality of foreign exchange reserves is continuously monitored and, if necessary, reacted in order to reduce credit risk to a minimum. Given the high credit quality of instruments in the Bank's foreign exchange reserves and the fact that the methodology for assessing impairment based on expected credit losses provides for an increase in calculated expected credit losses in the event of a decrease in credit quality of instruments / counterparties, in 2020, marked by a virus pandemic COVID-19, there was no need to change the methodology for assessing impairment based on expected credit losses.

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 appropriate means of security.

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 or companies, issues in maintaining the current liquidity of the bank and other debtors, issues related to deterioration of indicators of the risk of business of the borrower and other available information.

These financial assets are classified as impairment level 3, 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,

The estimate of expected credit losses in repo transactions of securities and liquidity loans is calculated as the sum of the values of all possible losses, each weighted by the probability of occurrence of that loss. The assessment of the probability of default is made based on the "credit rating", i.e. the default rate set by the rating agencies Standard & Poor's and Moody's for the level of credit rating that the Republic of Serbia has. The basic probability of loss determined in this way is adjusted by the probability of loss of the parent bank, as well as the internal assessment of banks' ratings determined on the basis of monitoring basic risk indicators, business model analysis, corporate governance and internal control system, solvency, liquidity and capital adequacy risks. and the adequacy of liquid assets, as well as on the basis of operational data available internally.

Estimation of the amount of impairment of financial assets related to permanent operations with securities, regulated by the Decision on conditions and manner of conducting open market operations (except corporate bonds) and placements in securities in dinars and foreign currency, acquired outside monetary policy activities ( except for corporate bonds), is performed on the basis of the number of days of delay in settling liabilities, if these assets are classified in the first level of impairment. If these assets are classified in impairment level 2 or 3, the impairment calculation is performed in accordance with the calculation applied to corporate bonds, with the exception of the scoring factor.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

*Impairment of financial assets (Continued)*

The assessment of expected credit losses in permanent operations related to corporate bond placements is based on data from rating agencies Standard & Poor's and Moody's on default rates on credit ratings for the Republic of Serbia and data from the Business Registers Agency on the company's creditworthiness.

In addition, the assessment is made on the basis of other significant data, such as the number of days of illiquidity of the company in the last 12 months, data on the prohibition of disposing of funds in bank accounts, etc., as well as on operational data on companies has (expected movements of basic macroeconomic indicators of the country, assessment of the stability of the financial system, knowledge of problems in the operations of individual companies or groups of companies, etc.).

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.

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 2020 and 2019:

	Thousands of RSD			
Cash and cash equivalents	Stage 1	Stage 2	Stage 3	Total
<b>Balance January 1, 2020</b>	-	-	<b>881,710</b>	<b>881,710</b>
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Foreign exchange effects	-	-	(67,489)	(67,489)
<b>Balance December 31, 2020</b>	<b>-</b>	<b>-</b>	<b>814,221</b>	<b>814,221</b>
<b>Balance January 1, 2019</b>	-	-	<b>871,049</b>	<b>871,049</b>
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Foreign exchange effects	-	-	10,661	10,661
<b>Balance December 31, 2019</b>	<b>-</b>	<b>-</b>	<b>881,710</b>	<b>881,710</b>

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

*Impairment of financial assets (Continued)*

	Thousands of RSD			
Deposits	Stage 1	Stage 2	Stage 3	Total
<b>Balance January 1, 2020</b>	<b>6,029</b>	-	<b>2,813,491</b>	<b>2,819,520</b>
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	25,066	-	-	25,066
Reversed impairments	(26,145)	-	-	(26,145)
Foreign exchange effects	(232)	-	(248,179)	(248,411)
<b>Balance December 31, 2020</b>	<b>4,718</b>	-	<b>2,565,312</b>	<b>2,570,030</b>
<b>Balance January 1, 2019</b>	<b>4,263</b>	-	<b>2,772,481</b>	<b>2,776,744</b>
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
<b>Balance December 31, 2019</b>	<b>6,029</b>	-	<b>2,813,491</b>	<b>2,819,520</b>

	Thousands of RSD			
Securities measured at amortised cost	Stage 1	Stage 2	Stage 3	Total
<b>Balance January 1, 2020</b>	-	-	<b>459,018</b>	<b>459,018</b>
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	57,166	-	-	57,166
<b>Balance December 31, 2020</b>	<b>57,166</b>	-	<b>459,018</b>	<b>516,184</b>
<b>Balance January 1, 2019</b>	-	-	<b>576,465</b>	<b>576,465</b>
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Reversed impairments	-	-	(114,144)	(114,144)
Write-offs	-	-	(3,303)	(3,303)
<b>Balance December 31, 2019</b>	-	-	<b>459,018</b>	<b>459,018</b>

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

*Impairment of financial assets (Continued)*

	Thousands of RSD			
Securities measured at FVOCI	Stage 1	Stage 2	Stage 3	Total
<b>Balance January 1, 2020</b>	<b>53.347</b>	-	-	<b>53.347</b>
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	11.432	-	-	11.432
Reversed impairments	(18.493)	-	-	(18.493)
<b>Balance December 31, 2020</b>	<b>46.286</b>	-	-	<b>46.286</b>
<b>Balance January 1, 2019</b>	<b>36.900</b>	-	-	<b>36.900</b>
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	32.032	-	-	32.032
Reversed impairments	(15.585)	-	-	(15.585)
<b>Balance December 31, 2019</b>	<b>53.347</b>	-	-	<b>53.347</b>

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

*Impairment of financial assets (Continued)*

	Thousands of RSD			
Credit and placements	Stage 1	Stage 2	Stage 3	Total
<b>Balance January 1, 2020</b>	<b>61,245</b>	<b>9,207</b>	<b>1,449,073</b>	<b>1,519,525</b>
Transfer to stage 1	28,163	(13,419)	(14,744)	-
Transfer to stage 2	(10,769)	25,437	(14,668)	-
Transfer to stage 3	(13,678)	(7,422)	21,100	-
Change for the period	10,585	6,969	2,934	20,488
Reversed impairments	(8,668)	(5,527)	(8,432)	(22,627)
Write-offs	-	-	(11,712)	(11,712)
Other	-	-	1,004	1,004
<b>Balance December 31, 2020</b>	<b>66,878</b>	<b>15,245</b>	<b>1,424,555</b>	<b>1,506,678</b>
<b>Balance January 1, 2019</b>	<b>66,925</b>	<b>8,834</b>	<b>1,460,359</b>	<b>1,536,118</b>
Transfer to stage 1	32,321	(3,538)	(28,783)	-
Transfer to stage 2	(6,601)	12,293	(5,692)	-
Transfer to stage 3	(18,818)	(7,530)	26,348	-
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
<b>Balance December 31, 2019</b>	<b>61,245</b>	<b>9,207</b>	<b>1,449,073</b>	<b>1,519,525</b>

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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
<b>Balance January 1, 2020</b>	-	712	291,217	291,929
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	(686)	686	-
Change for the period	-	3,101	10,205	13,306
Reversed impairments	-	(1,803)	(11,358)	(13,161)
Foreign exchange effects	-	(2)	(14,342)	(14,344)
Write-offs	-	-	(3,915)	(3,915)
Other	-	-	(57)	(57)
<b>Balance December 31, 2020</b>	-	1,322	272,436	273,758
<b>Balance January 1, 2019</b>	-	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)
<b>Balance December 31, 2019</b>	-	712	291,217	291,929

Other non-credit risk assets include inventories, advances and deferred fees and charges in the total amount of RSD 5,152,320 thousand (December 31, 2019: RSD 3,996,533 thousand) as at 31 December 2020.

During 2020, no reclassification or modification of financial assets was performed. Refinance of financial assets which represents a 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, in the total amount of 8,352 thousand dinars.

Also in 2020, there are no financial assets which are credit impaired, and whose conditions have been significantly modified, so that asset has been derecognized and new financial instrument 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
<b>Financial assets</b>						
Cash and current accounts held with banks	10,932,911	147,928,135	591,497	9,720	3,188	159,465,451
Deposits	30,434	143,749,193	55,532,775	-	-	199,312,402
Securities	119,725,851	501,639,814	183,142,963	104,034,070	131,514	908,674,212
Credit and placements	16,375,557	-	-	-	-	16,375,557
IMF membership quota and SDR holdings	-	-	7,700,392	-	-	7,700,392
Other assets	1,161,667	594	1,260	-	-	1,163,521
<b>Total as at December 31, 2020</b>	<b>148,226,420</b>	<b>793,317,736</b>	<b>246,968,887</b>	<b>104,043,790</b>	<b>134,702</b>	<b>1,292,691,535</b>
<b>Total as at December 31, 2019</b>	<b>14,693,089</b>	<b>834,135,986</b>	<b>288,949,015</b>	<b>96,336,576</b>	<b>69,065</b>	<b>1,234,183,731</b>

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
<b>Financial assets</b>							
Cash and current accounts held with banks	159,465,451	-	-	-	-	-	159,465,451
Deposits	199,301,253	10,299	850	-	-	-	199,312,402
Securities	97,036,877	117,414,926	5,251,558	686,659,926	-	2,310,925	908,674,212
Credit and placements	15,970,696	-	-	-	404,861	-	16,375,557
IMF membership quota and SDR holdings	-	-	7,700,392	-	-	-	7,700,392
Other assets	283,300	668,506	369	118,698	86,870	5,778	1,163,521
<b>Total as at December 31, 2020</b>	<b>472,057,577</b>	<b>118,093,731</b>	<b>12,953,169</b>	<b>686,778,624</b>	<b>491,731</b>	<b>2,316,703</b>	<b>1,292,691,535</b>
<b>Total as at December 31, 2019</b>	<b>451,183,108</b>	<b>687,183</b>	<b>10,874,633</b>	<b>770,889,822</b>	<b>542,780</b>	<b>6,205</b>	<b>1,234,183,731</b>

\* 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, 2020	December 31, 2019
<b>Securities in foreign currency:</b>		
<b>-Coupon bonds:</b>		
AAA	361,873,514	504,786,260
AA+	94,067,837	92,391,716
AA	102,144,415	106,787,011
AA-	25,282,333	41,484,691
A+	71,208,273	74,361,527
A	5,249,139	-
A-	27,905,922	32,956,008
<b>Total</b>	<b>687,731,433</b>	<b>852,767,213</b>
<b>-Discounted securities:</b>		
AAA	28,114,721	10,460,858
AA+	27,118,296	-
AA	26,544,624	10,452,988
AA-	7,670,815	-
A+	11,768,472	-
<b>Total</b>	<b>101,216,928</b>	<b>20,913,846</b>
<b>Time deposits:</b>		
No rating (risk-free)*	8,238,298	337,674
AAA	113,182,356	108,127,234
AA	75,214,808	95,335,851
AA-	2,646,506	3,527,009
<b>Total</b>	<b>199,281,968</b>	<b>207,327,768</b>
<b>Coupon securities:</b>		
- government bonds of the Republic of Serbia - the rating of the Republic of Serbia is BB+ with a stable outlook (stable outlook)**	88,907,042	-
- corporate securities The issuer's credit rating from "(B) very good" to "(D) acceptable" rating of the Serbian Business Registers Agency***	27,537,084	-
<b>Discount securities:</b>		
- treasury bills of the Republic of Serbia - the rating of the Republic of Serbia is BB+ with a stable outlook (stable outlook)**	3,281,725	-
<b>Total</b>	<b>119,715,851</b>	<b>-</b>

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

\*\* According to external rating agencies S&P and Fitch, the Republic of Serbia has a credit rating of BB+ with a stable outlook, while according to Moody's it has a credit rating of Ba3 with a positive outlook.

\*\*\* Rating of creditworthiness (scoring) is an objectified assessment determined on the basis of data from financial statements in the last five and at least three years, and when making scoring, the financial performance of the company is evaluated and analyzed through indicators for credit rating, taking into account basic tendencies in the area in which it performs its activity. In addition, other important data are included, such as the number of days of illiquidity in the last 12 months and the like. The condition for accepting corporate bonds in monetary operations is that the company, their issuer, has a credit rating of the Serbian Business Registers Agency at least at the level of "(D) acceptable" creditworthiness.

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**Credit risk (Continued)**

***Concentration of Credit Risk in Financial Assets (Continued)***

*c) Concentration per Credit Rating (Continued)*

<b><u>Thousands of RSD</u></b>	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
<b>Funds in current accounts with foreign banks</b> (used for international payment operations):		
- Assets in international financial institutions (without rating)	11,093	12,127
- Foreign banks with ratings AAA	24,626,057	24,768,292
- Foreign banks with ratings AA+	123,603,026	104,826,494
- Foreign banks with ratings AA, AA-, A+, A and A-	130,697	162,811
- Foreign with ratings BBB+ and BB+ and BB	161,668	353,080
<b>Total</b>	<b><u>148,532,541</u></b>	<b><u>130,122,804</u></b>
 Other financial assets exposed to credit risk	 <b><u>36,202,814</u></b>	 <b><u>23,052,100</u></b>
<b>Total</b>	<b><u>1,292,691,535</u></b>	<b><u>1,234,183,731</u></b>

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

<b><u>Thousands of RSD</u></b>	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
Current account funds with domestic banks	10,932,910	12,597,899
Deposits (and interest) given for housing construction to employees	30,435	31,512
Loans per repo transactions	15,433,873	-
Funds in special drawing rights	7,700,392	8,117,937
Other funds	2,105,204	2,304,752
<b>Total</b>	<b><u>36,202,814</u></b>	<b><u>23,052,100</u></b>

Loans to banks on repo transactions in the amount of RSD 15,433,873 thousand are the result of measures to support the dinar liquidity of the banking sector in the conditions of a pandemic. These transactions are fully covered by the transfer of ownership of the securities as collateral to the Bank and in the event that the bank fails to settle its obligations, the securities remain in the permanent ownership of the Bank. In order to ensure the collection of receivables, the Bank buys securities in repo operations at nominal value reduced by a certain percentage, the amount of which is determined taking into account the market price of securities and current market and monetary movements.

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**32. RISK MANAGEMENT POLICIES (Continued)**

**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.

32. RISK MANAGEMENT POLICIES (Continued)

Liquidity risk (Continued)

	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	Thousands of RSD Total
Cash and current accounts held with banks	394,424,179	-	-	-	-	-	394,424,179
Deposits	93,978,292	79,781,981	23,516,040	16,863	-	2,019,226	199,312,402
Receivables for derivatives	-	-	-	-	-	6,959	6,959
Securities	13,579,691	68,433,899	257,686,277	548,219,929	20,754,415	11,500,249	920,174,460
Loans and placements	8,730	13,814,506	1,617,049	2,228	402,579	530,465	16,375,557
IMF membership quota and SDR holdings	7,700,392	-	-	-	-	83,774,658	91,475,050
Other assets	431,440	117,000	-	-	-	615,081	1,163,521
<i>Total</i>	<i>510,122,724</i>	<i>162,147,386</i>	<i>282,819,366</i>	<i>548,239,020</i>	<i>21,156,994</i>	<i>98,446,638</i>	<i>1,622,932,128</i>
Liabilities under derivatives	-	-	-	-	-	69,442	69,442
Deposits and other liabilities to banks and other financial organisations	478,814,396	-	-	-	-	269,958,706	748,773,102
Deposits and other financial liabilities to Government and other depositors	316,052,927	-	-	-	-	88,548,391	404,601,318
Liabilities to the IMF	1,353	-	-	-	-	91,583,886	91,585,239
Dinars in circulation	-	-	-	-	-	266,698,917	266,698,917
Other liabilities	1,786,509	-	-	112,750	-	215,547	2,114,806
<i>Total</i>	<i>796,655,185</i>	<i>-</i>	<i>-</i>	<i>112,750</i>	<i>-</i>	<i>717,074,889</i>	<i>1,513,842,824</i>
<b>Liquidity gap as at December 31, 2020</b>	<b><u>(286,532,461)</u></b>	<b><u>162,147,386</u></b>	<b><u>282,819,366</u></b>	<b><u>548,126,270</u></b>	<b><u>21,156,994</u></b>	<b><u>(618,628,251)</u></b>	<b><u>109,089,304</u></b>
<b>Cumulative gap as at December 31, 2020</b>	<b><u>(286,532,461)</u></b>	<b><u>(124,385,075)</u></b>	<b><u>158,434,291</u></b>	<b><u>706,560,561</u></b>	<b><u>727,717,555</u></b>	<b><u>109,089,304</u></b>	<b><u>-</u></b>
<b>Liquidity gap as at December 31, 2019</b>	<b><u>(233,884,856)</u></b>	<b><u>141,728,598</u></b>	<b><u>290,123,161</u></b>	<b><u>498,790,376</u></b>	<b><u>2,262,651</u></b>	<b><u>(525,476,326)</u></b>	<b><u>173,543,604</u></b>
<b>Cumulative gap as at December 31, 2019</b>	<b><u>(233,884,856)</u></b>	<b><u>(92,156,258)</u></b>	<b><u>197,966,903</u></b>	<b><u>696,757,279</u></b>	<b><u>699,019,930</u></b>	<b><u>173,543,604</u></b>	<b><u>-</u></b>

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**32. RISK MANAGEMENT POLICIES (Continued)**

**Liquidity risk (Continued)**

The structure of maturities of assets and liabilities as at 31 December 2020 indicates the existence of maturity mismatch of assets and liabilities with a remaining maturity of up to 1 month, primarily due to a significant share of transaction deposits in dinars, a remaining maturity of up to 1 month. These liabilities in the total amount of RSD 796,655,185 thousand relate to transaction deposits in dinars (required reserve of banks, central deposit, deposits of the Ministry of Finance and the Treasury), in the amount of RSD 469,765,379 thousand, other deposits in dinars (deposits surplus liquid assets of banks and cash in the vaults of banks and the Treasury) in the amount of RSD 179,720,265 thousand, repo transactions in the amount of RSD 30,000,165 thousand, transaction and other foreign currency deposits in the amount of RSD 115,381,512 thousand, liabilities to the IMF and other liabilities in the amount of 1,787,862 thousand dinars.

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.

In response to the COVID-19 virus pandemic, the Bank did not change the way it manages liquidity risk for foreign exchange placements, bearing in mind that due to highly set criteria for liquidity and security of financial instruments in foreign exchange reserves, this risk has already been reduced to a minimum measure.

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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, 2020 and 2019:

	Thousands of RSD			
	Carrying Value		Fair Value	
	2020	2019	2020	2019
<b>Financial assets</b>				
Cash and current accounts held with banks	394,424,179	339,485,874	394,424,179	339,485,874
Deposits	199,312,402	207,598,412	199,312,402	207,598,412
Receivables for derivatives	6,959	5,259	6,959	5,259
Securities	920,174,460	884,779,127	920,174,460	884,779,127
Loans and placements	16,375,557	982,245	16,375,557	982,245
IMF membership quota and SDR holdings	91,475,050	96,333,002	91,475,050	96,333,002
Other assets	1,163,521	1,083,375	1,163,521	1,083,375
<b>Total</b>	<b>1,622,932,128</b>	<b>1,530,267,294</b>	<b>1,622,932,128</b>	<b>1,530,267,294</b>
<b>Financial liabilities</b>				
Liabilities under derivatives	69,442	4,809	69,442	4,809
Deposits and other liabilities to banks and other financial organisations	748,773,102	651,514,126	748,773,102	651,514,126
Deposits and other financial liabilities to Government and other depositors	404,601,318	397,401,344	404,601,318	397,401,344
Liabilities to the IMF	91,585,239	96,448,924	91,585,239	96,448,924
Dinars in circulation	266,698,917	209,567,662	266,698,917	209,567,662
Other liabilities	2,114,806	1,786,825	2,114,806	1,786,825
<b>Total</b>	<b>1,513,842,824</b>	<b>1,356,723,690</b>	<b>1,513,842,824</b>	<b>1,356,723,690</b>

### Fair Value Hierarchy

- 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.
- 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.

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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*

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, 2020	Level 1	Level 2	Level 3	Thousands of RSD Total
<b>Financial assets</b>				
Receivables for derivatives	-	6,959	-	6,959
Securities	761,827,323	-	38,621,286	800,448,609
<b>Total:</b>	<b>761,827,323</b>	<b>6,959</b>	<b>38,621,286</b>	<b>800,455,568</b>
<b>Financial liabilities</b>				
Liabilities under derivatives	-	69,442	-	69,442
<b>Total:</b>	<b>-</b>	<b>69,442</b>	<b>-</b>	<b>69,442</b>
<b>As of December 31, 2019</b>				
<b>Financial assets</b>				
Receivables for derivatives	-	5,259	-	5,259
Securities	863,228,071	-	21,551,056	884,779,127
<b>Total:</b>	<b>863,228,071</b>	<b>5,259</b>	<b>21,551,056</b>	<b>884,784,386</b>
<b>Financial liabilities</b>				
Liabilities under derivatives	-	4,809	-	4,809
<b>Total:</b>	<b>-</b>	<b>4,809</b>	<b>-</b>	<b>4,809</b>

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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 for derivative in the amount of RSD 6,959 thousand as at December 31, 2020 (2019: RSD 5,259 thousand) relate to the change in the fair values of derivatives (swap transactions of purchase and sale foreign currency), which is expressed as an asset.

Liabilities under derivatives in the amount of RSD 69,442 thousand as at December 31, 2020 (2019: RSD 4,809 thousand), refer to the negative fair values 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, i.e. the forward rate at which the Bank should buy or sell foreign currency and in off-balance sheet records. The swap transactions reported in off-balance sheet records in the total amount of RSD 37,296,427 thousand (31 December 2019: RSD 8,009,367 thousand) relate to the swap sale of foreign currency in the forward part of RSD 6,471,183 thousand (31 December 2019) year: forward part of 4,004,458 thousand dinars) and swap purchase of foreign currency, namely the forward part of 30,825,244 thousand dinars (31 December 2019: forward part of 4,004,909 thousand dinars).

Securities in the amount of RSD 761,827,323 thousand as at December 31, 2020 (2019: RSD 863,228,071 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. Debt securities in the amount of RSD 27,121,038 thousand as at December 31, 2020 (2019: RSD 10,452,988 thousand) are allocated to level 3 of the fair value hierarchy and refer to discounted government securities (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.

## 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)*

#### **b) Financial Assets and Liabilities at fair value - optionally**

The remaining part of securities in the amount of RSD 11,500,248 thousand as at December 31, 2020 (2019: RSD 11,098,068 thousand) allocated to level 3 of the fair value hierarchy refers 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%.

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 is the established practice of central banks.

#### *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:

<b><u>In thousands of RSD</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total Fair Value</u></b>	<b><u>Carrying Value</u></b>
<b>As at December 31, 2020</b>					
<b>Financial assets</b>					
Cash and current accounts held with banks	-	394,424,179	-	394,424,179	394,424,179
Deposits	-	-	199,312,402	199,312,402	199,312,402
Loans and placements	-	119,725,851	-	119,725,851	119,725,851
IMF membership quota	-	-	-	-	-
And SDR holdings	-	-	16,375,557	16,375,557	16,375,557
Other assets	-	7,700,392	83,774,658	91,475,050	91,475,050
	-	-	1,163,521	1,163,521	1,163,521
<b>Total</b>	<b>-</b>	<b>521,850,422</b>	<b>300,626,138</b>	<b>822,476,560</b>	<b>822,476,560</b>
<b>Financial liabilities</b>					
Deposits and other liabilities to banks and other financial organizations	-	-	748,773,102	748,773,102	748,773,102
Deposits and other liabilities to the Government and other depositors	-	-	404,601,318	404,601,318	404,601,318
Liabilities to the IMF	-	-	91,585,239	91,585,239	91,585,239
Dinars in circulation	-	-	266,698,917	266,698,917	266,698,917
Other liabilities	-	-	2,114,806	2,114,806	2,114,806
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,513,773,382</b>	<b>1,513,773,382</b>	<b>1,513,773,382</b>

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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)

In thousands of RSD	Level 1	Level 2	Level 3	Fair Value Total	Carrying Value
As at December 31, 2019					
<b>Financial assets</b>					
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
<b>Total financial assets</b>	<b>-</b>	<b>347,603,811</b>	<b>297,879,097</b>	<b>645,482,908</b>	<b>645,482,908</b>
<b>Financial liabilities</b>					
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
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>1,356,718,881</b>	<b>1,356,718,881</b>	<b>1,356,718,881</b>

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, 2020 and there were no changes in assumptions as at December 31, 2019:

- 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, 2020):
  - Cash and current accounts held with banks in the amount of RSD 394,424,179 thousand
  - Deposits held with banks in the amount of RSD 197,276,313 thousand
  - Securities in the amount of RSD 7,237,877 thousand,
  - Loans and placements in the amount of RSD 15,440,285 thousand, of which 99.96% relates to short-term repo operations,
  - Assets to the IMF amounting to RSD 7,700,392 thousand,
  - Other assets in the amount of RSD 548,440 thousand

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**32. RISK MANAGEMENT POLICIES (Continued)**

**Fair Value Information (Continued)**

*Fair Value Hierarchy (Continued)*

- Deposits and other liabilities to banks and other financial organizations, in the amount of RSD 478,814,396 thousand,
- Deposits and other liabilities to the state and other depositors, in the amount of RSD 316,052,927 thousand,
- Liabilities to the IMF, in the amount of 1,353 thousand dinars, and
- Other liabilities, in the amount of 1,786,509 thousand dinars.

The estimated fair values for the following financial assets and liabilities, mostly non-current (more than 1 year from December 31, 2020):

- Long-term deposits with banks in the amount of RSD 2,036,089 thousand, comprise call deposits and dedicated deposits for housing needs, which do not have a specified maturity
- Securities (Government and Corporate) in the amount of 112,487,974 thousand dinars are dinar securities acquired within monetary operations whose fair value is estimated on the basis of official market prices for the same or similar financial instruments,
- Loans and placements in the amount of RSD 935,272 thousand, partly (RSD 402,579 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 530,465 thousand) the loan amount fully secured by the deposit
- IMF membership quota (excluding reserve tranche) in the amount of RSD 83,774,658 thousand, funds that do not have a maturity
- Other assets in the amount of RSD 615,081 thousand
- Deposits and other liabilities to banks and other financial organizations, in the amount of RSD 269,958,706 thousand, which are liabilities without maturity,
- Deposits and other liabilities to the Government and other depositors in the amount of RSD 88,548,391 thousand of liabilities without maturity
- Liabilities to the IMF, in the amount of RSD 91,583,886 thousand, liabilities that do not have maturity
- Dinars in circulation in the amount of RSD 266,698,917 thousand, liabilities that do not have maturity
- Other liabilities, in the amount of RSD 328,297 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 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.

As at 31 December 2020, 56.29% of the amount of funds that are predominantly long-term in nature relates to funds obtained through monetary operations. The fair value of these assets is estimated based on official market prices for the same or similar financial instruments and does not deviate significantly from the carrying amount. The largest part of the remaining assets, 43.50%, is without a defined maturity (December 31, 2019: 99.54%), as well as 99.98% of the amount of liabilities that are mostly long-term in nature (December 31, 2019: 99.77%). The fair value hierarchy of financial assets and liabilities of a predominantly long-term nature that is not carried at fair value is level 2 and 3 in the fair value hierarchy.

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**32. RISK MANAGEMENT POLICIES (Continued)**

**Fair Value Information (Continued)**

*Fair Value Hierarchy (Continued)*

In 2020 and 2019 there were no transfers of financial assets and liabilities that are not measured at fair value among the fair value hierarchy levels.

**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.

32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

The exposure to interest rate risk as at December 31, 2020 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>
<b>Financial assets</b>			
Cash and current accounts held with banks	148,360,856	246,063,323	394,424,179
Deposits	199,267,463	44,939	199,312,402
Receivables for derivatives	-	6,959	6,959
Securities	920,174,460	-	920,174,460
Loans and placements	15,880,343	495,214	16,375,557
IMF membership quota and SDR holdings	7,700,392	83,774,658	91,475,050
Other assets	-	1,163,521	1,163,521
<b>Total</b>	<b>1,291,383,514</b>	<b>331,548,614</b>	<b>1,622,932,128</b>
<b>Financial liabilities</b>			
Liabilities under derivatives	-	69,442	69,442
Deposits and other liabilities to banks and other financial organisations	408,712,818	340,060,284	748,773,102
Deposits and other liabilities to the Government and other depositors	25,883,427	378,717,891	404,601,318
Liabilities to the IMF	7,807,364	83,777,875	91,585,239
Dinars in circulation	-	266,698,917	266,698,917
Other liabilities	-	2,114,806	2,114,806
<b>Total</b>	<b>442,403,609</b>	<b>1,071,439,215</b>	<b>1,513,842,824</b>
<b>Net exposure as at</b>			
<b>December 31, 2020</b>	<b>848,979,905</b>	<b>(739,890,601)</b>	<b>109,089,304</b>
<b>December 31, 2019</b>	<b>817,279,942</b>	<b>(643,736,338)</b>	<b>173,543,604</b>

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**32. RISK MANAGEMENT POLICIES (Continued)**

**Interest Rate Risk (Continued)**

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.

When VaR (95%) is calculated on a monthly basis, for the total portfolio converted into EUR, which includes coupon and discount securities and time deposits included in the investment portfolio in foreign currency, as at 31 December 2020, only in 5% of cases we can expect a loss of more than 1.07% or 12,362 million dinars (EUR 105.14 million).

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).

**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, 2020 would result in a loss of RSD 6,122 million dinars (EUR 52.07 million), on the USD portfolio, a loss of RSD 4,550 million dinars (USD 47.56 million), on the GBP portfolio, a loss of RSD 235 million dinars (GBP 1.80 million), on the CAD portfolio, a loss of RSD 239 million dinars (CAD 3.18 million).

The total effect of the increase in interest rates by 100 basis points on the EUR, USD, GBP and CAD portfolio as of December 31, 2019 would amount to RSD 16,563 million dinars.

32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

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 2019 on the same way.

In thousands of RSD	December 31, 2020			
	Equity 100 bp increase	100 bp decrease	Net profit 100 bp increase	100 bp decrease
<b>Financial assets</b>				
Cash and current accounts held with banks	1,483,609	(1,483,609)	1,483,609	(1,483,609)
Deposits	1,992,675	(1,992,675)	1,992,675	(1,992,675)
Securities	1,197,259	(1,197,259)	1,197,259	(1,197,259)
Loans and placements	158,803	(158,803)	158,803	(158,803)
IMF membership quota and SDR holdings	77,004	(77,004)	77,004	(77,004)
<b>Total</b>	<b>4,909,350</b>	<b>(4,909,350)</b>	<b>4,909,350</b>	<b>(4,909,350)</b>
<b>Financial liabilities</b>				
Deposits and other liabilities to banks and other financial organizations	(4,087,128)	4,087,128	(4,087,128)	4,087,128
Deposits and other liabilities to the Government and other depositors	(258,834)	258,834	(258,834)	258,834
Liabilities to the IMF	(78,074)	78,074	(78,074)	78,074
	<b>(4,424,036)</b>	<b>4,424,036</b>	<b>(4,424,036)</b>	<b>4,424,036</b>
<b>Net effect</b>	<b>485,314</b>	<b>(485,314)</b>	<b>485,314</b>	<b>(485,314)</b>

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**32. RISK MANAGEMENT POLICIES (Continued)**

**Interest Rate Risk (Continued)**

<b>In thousands of RSD</b>	<b>December 31, 2019</b>			
	<b>100 bp increase</b>	<b>Equity 100 bp decrease</b>	<b>Net profit 100 bp increase</b>	<b>100 bp decrease</b>
<b>Financial assets</b>				
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)
<b>Total</b>	<b>3,459,284</b>	<b>(3,459,284)</b>	<b>3,459,284</b>	<b>(3,459,284)</b>
<b>Financial liabilities</b>				
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
<b>Total</b>	<b>(4,134,276)</b>	<b>4,134,276</b>	<b>(4,134,276)</b>	<b>4,134,276</b>
<b>Net effect</b>	<b>(674,992)</b>	<b>674,992</b>	<b>(674,992)</b>	<b>674,992</b>

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**32. RISK MANAGEMENT POLICIES (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 1% depreciation of RSD value against the EUR, USD, CHF and SDR as at December 31, 2020 would increase equity and increase profit /decrease loss of the Bank in the amount of RSD 8,598,718 thousand (December 31, 2019: RSD 10,004,384 thousand). This analysis assumes that all other variables, in particular interest rates, remained unchanged.

RSD appreciation of 1% against the mentioned currencies would have the exact opposite effect, under the assumption that all other variables remained unchanged.

**TRANSLATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2020**

**NATIONAL BANK OF SERBIA**

**32. RISK MANAGEMENT POLICIES (Continued)**

**Currency Risk (Continued)**

The analysis of financial assets and liabilities exposure to currency risk per currency as at December 31, 2020 was as follows:

<b><u>In thousands RSD</u></b>	<b><u>EUR</u></b>	<b><u>USD</u></b>	<b><u>SDR</u></b>	<b><u>GBP</u></b>	<b><u>CAD</u></b>	<b><u>Other currencies</u></b>	<b><u>Total foreign currency balance</u></b>	<b><u>RSD</u></b>	<b><u>Total</u></b>
<b>Financial assets</b>									
Cash and current accounts held with banks	369,964,401	4,302,135	-	164,514	610,827	8,449,359	383,491,236	10,932,943	394,424,179
Deposits	81,142,024	112,084,886	-	5,317,283	750,884	451	199,295,528	16,874	199,312,402
Receivables for derivatives	-	-	-	-	-	-	-	6,959	6,959
Securities	459,900,716	286,622,262	11,499,578	19,917,839	22,508,214	-	800,448,609	119,725,851	920,174,460
Loans and placements	-	-	-	-	-	-	-	16,375,557	16,375,557
IMF membership quota and SDR holdings	-	-	91,475,050	-	-	-	91,475,050	-	91,475,050
Other assets	28,659	516,521	-	51	348	137	545,716	617,805	1,163,521
<b>Total financial assets</b>	<b>911,035,800</b>	<b>403,525,804</b>	<b>102,974,628</b>	<b>25,399,687</b>	<b>23,870,273</b>	<b>8,449,947</b>	<b>1,475,256,139</b>	<b>147,675,989</b>	<b>1,622,932,128</b>
<b>Financial liabilities</b>									
Liabilities under derivatives	-	-	-	-	-	-	-	69,442	69,442
Deposits and other liabilities to banks, other financial organisations	276,349,864	464,286	-	5,741	-	157	276,820,048	471,953,054	748,773,102
Deposits and other liabilities to the Government and other depositors	153,428,177	42,318,872	1,532	222,207	16,030	544,607	196,531,425	208,069,893	404,601,318
Liabilities to the IMF	-	-	91,585,239	-	-	-	91,585,239	-	91,585,239
Dinars in circulation	-	-	-	-	-	-	-	266,698,917	266,698,917
Other liabilities	624,495	194,548	-	22,041	17,338	368,445	1,226,867	887,939	2,114,806
<b>Total financial liabilities</b>	<b>430,402,536</b>	<b>42,977,706</b>	<b>91,586,771</b>	<b>249,989</b>	<b>33,368</b>	<b>913,209</b>	<b>566,163,579</b>	<b>947,679,245</b>	<b>1,513,842,824</b>
<b>Net exposure as at December 31, 2020</b>	<b>480,633,264</b>	<b>360,548,098</b>	<b>11,387,857</b>	<b>25,149,698</b>	<b>23,836,905</b>	<b>7,536,738</b>	<b>909,092,560</b>	<b>(800,003,256)</b>	<b>109,089,304</b>
<b>Net exposure as at December 31, 2019</b>	<b>546,446,515</b>	<b>436,204,910</b>	<b>10,981,512</b>	<b>24,429,201</b>	<b>24,115,532</b>	<b>7,436,833</b>	<b>1,049,614,503</b>	<b>(876,070,899)</b>	<b>173,543,604</b>

\* Other currencies are primarily related to CHF

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, 2020 and 2019:

#### December 31, 2020

<u>In thousands of RSD</u>	<u>Current items (within 12 months)</u>	<u>Non-current items (over 12 months)</u>	<u>Without maturity</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and current accounts held with banks	394,424,179	-	-	394,424,179
Gold and other precious metals	208,078,233	-	-	208,078,233
Deposits	197,276,313	16,863	2,019,226	199,312,402
Receivables for derivatives	-	-	6,959	6,959
Securities	339,699,867	568,974,344	11,500,249	920,174,460
Loans and placements	15,440,285	404,807	530,465	16,375,557
IMF membership quota and SDR holdings	7,700,392	-	83,774,658	91,475,050
Intangible assets	-	288,428	-	288,428
Property, plant and equipment	-	19,157,663	-	19,157,663
Investment property	-	407,692	-	407,692
Other assets	5,700,760	-	615,081	6,315,841
<b>Total assets</b>	<b>1,168,320,029</b>	<b>589,249,797</b>	<b>98,446,638</b>	<b>1,856,016,464</b>
<b>Liabilities</b>				
Liabilities under derivatives	-	-	69,442	69,442
Deposits and other liabilities to banks and other financial organisations	478,814,396	-	269,958,706	748,773,102
Deposits and other financial liabilities to Government and other depositors	316,052,927	-	88,548,391	404,601,318
Liabilities to the IMF	1,353	-	91,583,886	91,585,239
Provisions	693,889	822,772	-	1,516,661
Current tax liabilities	379,091	-	-	379,091
Dinars in circulation	-	-	266,698,917	266,698,917
Other liabilities	2,020,498	112,750	215,547	2,348,795
<b>Total liabilities</b>	<b>797,962,154</b>	<b>935,522</b>	<b>717,074,889</b>	<b>1,515,972,565</b>
<b>NET ASSETS</b>	<b>370,357,875</b>	<b>588,314,275</b>	<b>(618,628,251)</b>	<b>340,043,899</b>

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

**December 31, 2019**

<b><u>In thousands of RSD</u></b>	<b><u>Current items (within 12 months)</u></b>	<b><u>Non-current items (over 12 months)</u></b>	<b><u>Without maturity</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>				
Cash and current accounts 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	5,079,908
<b>Total assets</b>	<b>1,089,223,947</b>	<b>522,226,598</b>	<b>100,585,426</b>	<b>1,712,035,971</b>
<b>LIABILITIES</b>				
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
<b>Total assets</b>	<b>731,530,527</b>	<b>1,628,752</b>	<b>626,061,750</b>	<b>1,359,221,029</b>
<b>NET ASSETS</b>	<b>357,693,420</b>	<b>520,597,846</b>	<b>(525,476,324)</b>	<b>352,814,942</b>

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### **34. LITIGATIONS**

As at 31 December 2020, the Bank is litigating in the total estimated amount of RSD 12,552,281 thousand. Of the total estimated amount of disputes, RSD 113,870 thousand relates to disputes for which a negative outcome has been estimated for the Bank. That amount includes court costs and the estimated amount of any default interest.

As disclosed in Note 27, as at 31 December 2020, the Bank formed provisions for potential losses that may arise from the litigation in the amount of RSD 113,870 thousand (December 31, 2019, in the amount of RSD 143,136 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.

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**35. RELATED PARTY TRANSACTIONS (Continued)**

**Transactions with the State and Government Institutions (Continued)**

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.

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 31).

**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.

### 35. RELATED PARTY TRANSACTIONS (Continued)

#### Transactions with the Key Management Personnel (Continued)

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.

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

<b><u>In thousands of RSD</u></b>	<b><u>Gross remuneration s disbursed in 2020</u></b>	<b><u>Net remuneration s disbursed in 2020</u></b>	<b><u>Gross remuneration s disbursed in 2019</u></b>	<b><u>Net remuneration s disbursed in 2019</u></b>
<b>Position</b>				
Governor	10,034	8,011	8,236	7,141
Vice Governors	23,526	18,278	20,737	16,682
Secretary General	4,639	3,290	3,722	2,637
Directors General, Directors of organizational units within the headquarters, Directors of branch offices and Managing Director of ZIN	114,435	82,141	101,004	73,189
Deputies and assistants to Directors General and Directors General of organizational units, Directors of branch offices and Managing Director of ZIN	110,470	77,819	87,864	62,421
Department Heads	212,764	150,147	189,495	135,095
Chairman and members of the Bank Council of the Governor	17,189	10,913	15,054	10,082
<b>Total for the period</b>	<b><u>493,057</u></b>	<b><u>350,599</u></b>	<b><u>426,112</u></b>	<b><u>307,247</u></b>

### 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, 2020, while the balances of receivables denominated in foreign currencies were reconciled as at December 31, 2020.

Out of the total amount of receivables of RSD 1.436,839,208 thousand, for which the Bank delivered outstanding item statement forms for balance confirmation/reconciliation, receivables in the amount of RSD 1.436,303,382 thousand or 99,96% of the total receivables were reconciled, while the amount of RSD 535,826 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.

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**36. RECONCILIATION OF RECEIVABLES AND PAYABLES (Continued)**

The Bank does not perform balance reconciliation of receivables due from its employees and legal entities in bankruptcy or those subject to liquidation procedure.

The Bank received the settlement forms from legal entities in the total amount of RSD 363,719,210 thousand, while the amount of RSD 7,952,251 thousand or 2,19% 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.

**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, 2020 and 2019 were as follows:

<u>In Dinars</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
USD	95,6637	104,9186
EUR	117,5802	117,5928
GBP	130,3984	137,5998
CAD	75,0831	80,4108
CHF	108,4388	108,4004
SDR	137,7816	145,0846

Jorgovanka Tabaković, PhD  
Governor