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Independent Auditor's Report

To the Shareholders of ProCredit Bank a.d. Beograd

Opinion

We have audited the consolidated financial statements of ProCredit Bank a.d. Beograd (the “Bank”), which comprise:

— the consolidated statement of financial position as at 31 December 2020,

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

— the consolidated statements of profit or loss and other comprehensive income;

— the consolidated statement of changes in equity;

— the consolidated cash flow statement;

and

— notes, comprising significant accounting policies and other explanatory information

(“the consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements are prepared in all material respects, in accordance Note 2 to the consolidated financial statements, which describes the basis of accounting.

Registration No.: 17148656
Tax Identity No.: 100058593
Bank Account No.: 265-1100310000190-61

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated 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.

Emphasis of Matter - Basis of Accounting and Restriction on Use and Distribution

We draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared to assist the Bank in complying with the certain financial reporting requirements defined by internal policies. As a result, the consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the Bank and ProCredit Holding AG & Co. KGaA and should not be used by or distributed to parties other than the Bank and ProCredit Holding AG & Co. KGaA. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the consolidated financial statements in accordance with Note 2 to the consolidated financial statements, which describes the basis of accounting, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

KPMG d.o.o. Beograd

KPMG doo Beograd

Milutina Milankovica 1J
11070 Belgrade

Belgrade, 25 May 2021

PROCREDIT BANK A.D. BEOGRAD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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Consolidated statement of profit or loss and other comprehensive income

TRSD	Note	01.01.2020.- 31.12.2020.	01.01.2019.- 31.12.2019.
Interest income (effective interest method)	2.G, 4	3,964,422	3,788,180
Interest expenses	2.G, 4	(1,050,132)	(1,155,846)
Net interest income	4	**2,914,290**	**2,632,334**
Loss allowance	2.W, 9	(428,602)	(172,836)
Net interest income after allowance		**2,485,688**	**2,459,498**
Fee and commission income	2.H, 5	1,378,122	1,286,455
Fee and commission expense	2.H, 5	(607,792)	(558,073)
Net fee and commission income	5	**770,330**	**728,382**
Result from foreign exchange transactions	2.D, 6	226,066	137,717
Result from derivative financial instruments	2.F, 7	(80,029)	22,407
Result on derecognition of financial assets measured at amortized cost		110,712	9,844
Net other operating expense	8	(294,667)	(224,383)
Operating income		**3,218,100**	**3,133,465**
Personnel expenses	10	(961,489)	(935,857)
Other administrative expenses	11	(1,399,899)	(1,381,939)
Operating expenses		**(2,361,388)**	**(2,317,796)**
Profit before tax		**856,712**	**815,669**
Income tax expenses	12	(142,569)	(119,133)
Profit of the period		**714,143**	**696,536**
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve loss allowance of FVOCI		3,036	(2,797)
Change in deferred tax on revaluation reserve of FVOCI		(11)	7,137
Change in revaluation reserve fair value changes of FVOCI		25,220	(47,582)
Other comprehensive income of the year, net of tax		**28,245**	**(43,242)**
Total comprehensive income of the year		**742,388**	**653,294**
Profit attributable to equity holders of the Group		**742,388**	**653,294**

These consolidated financial statements were approved by the Executive Board on 29 April 2021 and signed on their behalf by:

Ivan Smiljković 100102484-1910981740025

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Ivan Smiljković
Member of the Executive Board

Igor Anić 200005709

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Igor Anić
President of the Executive Board

Consolidated statement of financial position

TRSD	Note	12/31/2020	12/31/2019
ASSETS			
Cash	2.M, 13	1,839,328	2,276,142
Central bank balances	2.M, 13	18,342,922	15,247,347
Loans and advances to banks	2.E, 14	9,479,865	10,081,696
Derivative financial assets	2.F	-	22
Investment securities	2.E, 15	5,290,744	-
Loans and advances to customers	2.E, 16	110,074,952	96,150,331
Property, plant and equipment	2.J, 18	1,250,567	1,530,378
Intangible assets	2.I, 17	285,851	268,988
Current tax assets	2.R	-	29,322
Deferred tax assets	2.R, 19	40,794	33,366
Other assets	2.E, 20	1,064,418	1,066,693
Total assets		**147,669,441**	**126,684,285**
LIABILITIES			
Liabilities to banks	2.S, 21	10,363,215	8,036,000
Derivative financial liabilities	2.F	5,385	3,918
Liabilities to customers	2.S, 22	88,137,911	72,686,410
Liabilities to international financial institutions	2.S, 23	29,379,608	27,076,843
Other liabilities	2.E, 27	710,453	670,877
Provisions	2.N, 26	259,249	171,860
Current tax liabilities	2.R, 25	33,349	-
Subordinated debt	2.S, 24	1,895,491	1,895,985
Total liabilities		**130,784,661**	**110,541,893**
EQUITY			
Subscribed capital and capital reserve	2.T, 28	6,439,757	6,439,757
Retained earnings	2.T, 28	8,772,372	8,058,229
Revaluation reserve	2.T, 28	28,787	542
Legal reserve	2.T, 28	1,643,864	1,643,864
Total equity		**16,884,780**	**16,142,392**
Total equity and liabilities		**147,669,441**	**126,684,285**

These consolidated financial statements were approved by the Executive Board on 29 April 2021 and signed on their behalf by:

Ivan Smiljković
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Igor Anić
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Igor Anić
President of the Executive Board

Consolidated statement of changes in equity

TRSD	Subscribed capital and capital reserve	Retained earnings	Revaluation reserve	Legal reserves	Total equity
Balance as of 1 January 2019	**6,439,757**	**7,361,693**	**43,784**	**1,643,864**	**15,489,098**
Profit for the period	-	696,536	-	-	696,536
Other comprehensive income of the period, net of tax	-	-	(43,242)	-	(43,242)
Total comprehensive income	-	**696,536**	**(43,242)**	-	**653,294**
	-	-	-	-	-
Balance as of 31 December 2019	**6,439,757**	**8,058,229**	**542**	**1,643,864**	**16,142,392**
Balance as of 1 January 2020	**6,439,757**	**8,058,229**	**542**	**1,643,864**	**16,142,392**
Profit for the period	-	714,143	-	-	714,143
Other comprehensive income of the period, net of tax	-	-	28,245	-	28,245
Total comprehensive income	-	**714,143**	**28,245**	-	**742,388**
Balance as of 31 December 2020	**6,439,757**	**8,772,372**	**28,787**	**1,643,864**	**16,884,780**

These consolidated financial statements were approved by the Executive Board
on 29 April 2021 and signed on their behalf by:

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Ivan Smiljković
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Igor Anić
President of the Executive Board

Consolidated cash flow statement

TRSD	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Profit of the period	**714,143**	**696,536**
Income tax expenses	142,569	119,133
Profit before tax	**856,712**	**815,669**
Non-cash items included in the profit of the period and transition to the cash flow from operating activities		
Depreciation, impairment and appreciation of loans and advances, property, plant and equipment and financial investments	679,033	466,180
Increase/decrease of provisions	87,389	72,211
Gains/losses from disposal of fixed assets	1,737	2,208
Other non-cash expenses and income	80,029	(22,407)
Subtotal	**1,704,900**	**1,333,861**
Net change in assets and liabilities from operating activities:		
Loans and advances to banks	(11,106,209)	(3,888,616)
Loans and advances to customers	(13,865,412)	(10,709,566)
Other assets from operating activities	7,442	(92,425)
Liabilities to banks and to international financial institutions	4,704,902	5,561,024
Liabilities to customers	15,412,163	11,455,327
Other liabilities from operating activities	(10,629)	135,378
Interest received	3,964,422	3,788,180
Interest paid	(1,050,132)	(1,155,846)
Income tax paid	(87,337)	(117,502)
Cash flow from operating activities	**(325,890)**	**6,309,815**
Proceeds from disposal of fixed assets	87,315	153,106
Payments for purchase of fixed assets	(37,115)	(70,533)
Cash flow from investing activities	**50,200**	**82,573**
Proceeds/payments from subordinated loans	(494)	(1,787,125)
Cash flow from financing activities	**(494)**	**(1,787,125)**
Cash and cash equivalents at end of previous year	**14,237,400**	**9,461,332**
Cash flow from operating activities	(325,890)	6,309,815
Cash flow from investing activities	50,200	82,573
Cash flow from financing activities	(494)	(1,787,125)
Effects of exchange rate changes	(10,079)	170,805
Cash and cash equivalents at the end of period	**13,951,137**	**14,237,400**

These consolidated financial statements were approved by the Executive Board on 29 April 2021 and signed on their behalf by:

Ivan Smiljković
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Igor Anić
President of the Executive Board

1. GENERAL INFORMATION

ProCredit Bank a.d. Beograd (the “Bank”) was established in 2001 as a Joint Stock Company and was issued with a banking licence by the National Bank of Yugoslavia (the “Central Bank”) on April 5, 2001.

In 2003, the Bank changed its name from Micro Finance Bank a.d. Beograd to ProCredit Bank a.d., Beograd.

The Bank is licensed in the Republic of Serbia to perform payment transfers, credit and deposit activities in the country and abroad, and in accordance with Republic of Serbia law, is to operate on principles of liquidity, security of placements and profitability.

The Bank established ProCredit Leasing d.o.o. Beograd as a limited liability company and registered it with the Agency for Legal Entities in Belgrade under register number 1973/2005 on 17 February 2005. The Bank is the 100% owner of ProCredit Leasing d.o.o. Beograd in liquidation. In accordance with the Law on Bankruptcy and Liquidation of Banks and Insurance Companies, the Assembly of Leasing made the Decision on termination of work and initiation of liquidation on the first of January 2018. The process of liquidation started after NBS’ approval on April 30th 2018 and is still ongoing.

These consolidated financial statements comprise the Bank and its subsidiary ProCredit Leasing d.o.o. Beograd (collectively the “Group”).

The Group is controlled by ProCredit Holding AG & Co. KGaA Frankfurt am Main (“ProCredit Holding”, “PCH”), which owns 100% of shares.

As at 31 December 2020, the Group’s head office is located in Belgrade, Milutina Milankovića 17, and has 16 branches throughout Serbia. The number of employees as at 31 December 2020 are 392 (as at 31 December 2019 the total number of employees was 384).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated. For the purpose of better presentation in certain segments the Group restated comparative information.

A) Basis of accounting

The Group’s consolidated financial statements have been prepared in accordance with the instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group. Effective accounting policies are set out in Note 2.

The financial statements are prepared to assist the Bank in complying with the certain financial reporting requirements defined by internal policies. As a result, the financial statements may not be suitable for another purpose.

Management believes that the consolidated financial statements set out appropriately and materially the Group’s financial position and performance following the application of ProCredit Holding AG & Co. KGaA’s Accounting Manual 2020 and applicable, recognition and measurement criteria in each of the reporting periods presented.

The preparation of consolidated financial statements in conformity with the instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

The Consolidated Financial Statements comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the Notes to the Consolidated Financial Statements.

The consolidated financial statements are presented in RSD, which is the Group's functional and presentational currency. The figures shown in the consolidated financial statements are stated in RSD thousand except if stated differently.

The accompanying financial statements have been prepared under the historical cost basis, except where the fair value basis has been specifically indicated, as specified in the accounting policies.

B) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Bank has only one 100% owned subsidiary – ProCredit Leasing d.o.o. Beograd in liquidation.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

C) Going concern

The consolidated financial statements ("financial statements") are prepared in accordance with the going concern concept, which assumes that the Group will continue its operation, in the foreseeable future.

D) Foreign currency translation

(a) Transactions and balances

Transactions in foreign currency are translated into the functional currency of the Group using the spot exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the spot exchange rate at reporting date. Foreign exchange differences arising on translation are recognized in the statement of profit or loss.

Non-monetary assets denominated in foreign currency are translated at the spot exchange rate at the historic date.

(b) Exchange rates

The official exchange rates as at 31 December 2020 and 2019 were as follows:

	12/31/2020	**12/31/2019**
USD	95.6637	104.9186
EUR	117.5802	117.5928
CHF	108.4388	108.4004
CNY	14.6001	15.0334
GBP	130.3984	137.5998

E) Financial instruments

The Group classifies its financial assets both according to their underlying business model and also their contractual cash flows.

Differentiation is made between the following business models: “hold to collect”, “hold to collect and sell” and “other”. Financial assets are assigned to the “hold to collect” business model if their objective is to collect contractual cash flows through interest and principal payments (SPPI conform). The statement of financial position items allocated to this business model are: “Central bank balances”, “Loans and advances to banks”, “Loans and advances to customers” and “Other assets”. “Investment securities” are allocated to the “hold to collect and sell” business model; these financial assets are generally held (SPPI conform) in order to collect contractual cash flows but can be sold as needed. “Cash” and “derivative financial assets” are allocated to the “other” business model.

(a) Financial assets and financial liabilities at fair value through profit or loss

Financial assets held for trading or which are not classified in the “hold to collect” or “hold to collect and sell” business models are allocated to the “other” business model and recognised at fair value through profit or loss. This includes “cash” and “derivative financial assets”. “Derivative financial liabilities” are recognised as financial liabilities at fair value through profit or loss.

The Group does not apply hedge accounting. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under “Derivative financial assets”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Derivative financial liabilities”.

Derivative financial instruments are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss. Purchases and sales of derivative financial instruments are recognised on the trade date – the date on which the Group commits to purchase or sell the instrument. Subsequently, the derivative financial instruments are also carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the consolidated statement of profit or loss of the period.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred legal rights and substantially all risks and rewards of ownership. Derivative financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

(b) Financial assets at amortised costs

A financial asset is classified as “at amortised costs” if the financial asset is allocated to the “hold to collect” business model and the contractual cash flows meet the SPPI criterion. Financial assets at amortised costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides capital directly to a contracting party with no intention of trading the receivable.

Financial assets at amortised costs are recognised when the principal is advanced to the borrowers. These assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the consolidated statement of profit or loss under “net interest income”. At each statement of financial position date and whenever there is evidence of potential impairment, the Group assesses the value of its financial assets at amortised costs. As a consequence, their carrying amount may be reduced through the use of an allowance. If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the consolidated statement of profit or loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans and advances are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. In addition, when loans and advances are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

(c) Financial assets at fair value with changes in fair value recognised in other comprehensive income

A financial asset is classified and recognised as "at fair value with changes in fair value recognised in other comprehensive income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model.

Most of the "investment securities" allocated to this business model are those financial assets that are generally held "SPPI conform" in order to collect contractual cash flows but can be sold as needed.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Consolidated statement of profit or loss and other comprehensive income under "Change in revaluation reserve fair value changes of FVOCI". If the FVOCI financial instrument is derecognised or impaired the cumulative gain or loss previously recognised in the "Change in revaluation reserve fair value changes of FVOCI" is recognised in the consolidated statement of profit or loss in the position "Result from investment securities". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI debt financial instruments are recognised in the consolidated statement of profit or loss. For the FVOCI equity instruments, any dividend payments are recognised in the consolidated statement of profit or loss, but not the accumulated value change on de-recognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

(d) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of profit or loss over the period of the debt instrument. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Measurement basis

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost. In general, financial instruments at fair value are measured on a recurring basis in the consolidated financial statements.

Fair value is defined as 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 between market participants at the measurement date.

The Group applies the hierarchy to measure fair value in accordance with the instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

(a) Level 1 Inputs

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring transactions on an arm's length basis .

(b) Level 2 Inputs

Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied are approximations of the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

(c) Level 3 Inputs

Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. These internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. ProCredit's Group Funding interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

Impairment of financial assets

The objective of the impairment model approach is to recognize lifetime expected credit losses for all exposures for which there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including those which are forward-looking.

Therefore, the necessity for lifetime expected loss provisioning arises when a significant increase in credit risk from the date of exposure's origination is detected.

The Group applies the categories in accordance with the instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group:

- Stage I
- Stage II
- Stage III

Regular assessment of objective evidence of impairment is applicable to all on-balance sheet and off-balance sheet credit exposures, regardless of their size.

The Group recognizes provisions for Expected Credit Losses (ECL) that reflect changes in credit quality since the initial recognition of financial assets measured at amortized cost (AC) and at fair value through other comprehensive income (FVOCI), including loans, debt securities, financial guarantee agreements and commitments based on approved credit lines.

Expected credit losses are defined as a probability-weighted estimate of credit losses that takes into account the time value of money. After initial recognition of financial assets included in the scope of the impairment policy, the Group records a provision for loss (impairment of financial assets) equal to 12-month expected credit losses, which arise from events that cause default status, possible in the next 12 months. Subsequently, for financial assets for which a significant increase in credit risk from initial recognition has been determined, a provision for loss (impairment of the financial asset) is recognized as expected credit losses over the entire period of the financial asset, arising from events that cause default, during the expected life of the financial asset.

Measurement of expected credit losses

The measurement of expected credit losses is an objective (unbiased) probability-weighted average estimate of credit losses that reflects the time value of money and is determined by evaluating a number of possible outcomes.

Credit loss is the difference between the cash flows that the Group claims under the contract and the cash flows that the Group expects to receive (ie a cash shortfall) discounted at the initial effective interest rate of the particular financial instrument.

When measuring expected credit losses, information about past events, current conditions and a reasonable and reasoned assessment of the future situation are considered.
For non-withdrawn assets and financial guarantees, credit conversion factors (CCF) are used in the calculation of expected credit losses.

Expected credit losses are calculated for the maximum agreed period of credit risk exposure based on a specific financial instrument.

When a loan is uncollectible, impairment is made through the loan impairment account. Such loans are reduced in value after all necessary procedures have been completed and the amount of the loss determined.

If, in the following period, the amount of impairment loss decreases and the decrease can be objectively related to any event after the impairment is recognized (such as an improvement in the borrower's credit rating), the previously recognized impairment loss is adjusted for changes in the allowance account. The amount of the adjustment is recognized in the consolidated statement of profit and loss.

Business model

The Group business model for loans and advances to customers follows the hold-to-collect approach:

- The Group has a simple traditional banking approach;
- There is a clear specific target group (SMEs);
- The Group has a small range of simple credit facilities, such as instalment loans, overdrafts, credit lines, credit cards and documentary business facilities; and
- There is no performance-related bonus compensation system on any level.

The business model consists of the core activities of simple traditional banking business, whereby the Groupspecialises in meeting the demands of SMEs, including their owners and business partners. Group also provides banking services for private clients, offering simple and easily accessible deposit facilities, and in this way promotes the development of a savings culture and contributes to greater economic stability in private households.

The Group does not offer any complex financial products or asset management services, but focuses on transparent and simple products that SMEs and private households demand. The Group enjoys a simple balance sheet: assets and liabilities largely consist of business loans and customer deposits, respectively. The main source of income is the interest charged on the loan portfolio. Interest rates are set transparently and are competitive in the market context.

Sales of portfolio do not necessarily change the business model, i.e. if the sales are infrequent (even if they are significant in value) or insignificant in value both individually and on the aggregate level (even if they are frequent). In the case of Group, the following cases may apply:

- Ordinary sales due to the following reasons:
  - An increase in credit risk has occurred (non-performing/defaulted exposures),
  - Other reasons – when annual sales account for less than 5% of the total average yearly loan portfolio, the portfolio is considered insignificant and does not contradict to the hold-to-collect business model;
- Extraordinary sales – as a result of change in business strategy:
  - Selling a financial asset because it no longer meets the credit criteria specified in in the Business Strategy.

The assessment of the business model is to be on ad-hoc basis if there are significant changes in the business activity and/or strategy.

SPPI test

The SPPI (solely payment of principal and interest) criterion is fulfilled if the contractual terms of the financial asset give rise, on specified dates, to cash flows that account solely for payments of principal and interest on the principal amount outstanding.

Principal is defined as the fair value of the financial asset at initial recognition. It is granted that principal may change over time if there are repayments of principal.

The interest rate should only account for the following elements:

- The time value of money,
- Credit risk associated with the principal amount outstanding,
- Other basic lending risks and costs- liquidity risk, administrative costs, and
- Profit margin.

Measuring financial assets at amortised cost is only appropriate for simple cash flows that have low variability, such as those of simple loan products, receivables and debt securities. Contractual cash flows that meet the SPPI criterion are consistent with a basic lending arrangement, such as the products of group.

The Group shall perform the SPPI test at least, in the following situations:

- Initial test;
- When introducing a new credit facility. The Group should have SPPI test as part of the New Risk Approval (NRA);
- When introducing new template contract;
- When introducing new individual contract;
- When introducing new clause that is not confirmed and documented to meet the SPPI criterion; and
- When the Group decides to exercise a right from a contract. Such right might be an increase of interest rate due to deterioration of macroeconomic situation on the market. The Group needs to prove and document that changes raised from the exercised right are meeting the SPPI criterion.

Reclassifications

Financial assets are reclassified only in the event of a change in the business model for managing those financial assets. Reclassification is performed in accordance with the provisions defined by instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group . Financial liabilities are not reclassified.

F) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value through profit or loss on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses arising from changes in fair value of derivatives are included in “Net result from derivative financial instruments”. The Group does not apply hedge accounting.

G) Interest

Interest income and expense for all interest-bearing financial instruments are recognised within “interest income” and “interest expenses” in the profit and loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset of financial liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows and considers all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all transaction costs, fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the effective interest rate for the purpose of measuring the impairment loss.

H) Fee and commission

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

Other fees and commission income are generally recognised when the service has been provided. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

I) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

These costs are amortised on the basis of the expected useful lives and the period licenses are issued for. Software has a maximum expected useful life of 5 years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

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

J) Property, plant and equipment

Property, plant and equipment are stated at historical cost less scheduled depreciation and impairment losses, as decided by the management. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are considered separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Property – 40 years,
- Leasehold improvements - shortest of 10 years or leasehold contract duration,
- Motor vehicles - 5 years,
- Furniture - 10 years,
- Computers - 5 years, and
- Right of use assets - according to the period of leasing contract.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of consolidated statement of financial position.

Any gain or loss on disposals of an item of property and equipment is determined as a difference between the net proceeds from disposal and carrying amount of the item. These are included in net other operating expenses in profit or loss.

K) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The ‘recoverable amount’ of an asset or CGU is the greater of its value in use and its fair value less costs to sell. ‘Value in use’ is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

L) Leases

The Group as a lessee

Single lessee accounting model "ROU model"

At the inception of a contract, the group assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right-of-use asset (ROU asset) represents a lessee’s right to use an underlying asset for the lease term. Right to direct the use of an asset is the right to decide when, how and in which way the asset will be used. If a customer has the right to direct the use there is a lease contract, otherwise, supplier is just providing a service.

A lease is present in a contract if it includes both:

1) An identified asset
   - Which is explicitly or implicitly specified; if the supplier has a substantive substitution right, then the asset is not identified;
   - Supplier has no practical ability to substitute or would economically benefit from substituting;

2) The right to control use of the asset during the term
   - Decision-making authority over the use of the asset;
   - The ability to obtain substantially all of the economic benefits from the use of the asset.

The lease term includes the non-cancellable period for which the lessee has the right to use an underlying asset. Periods covered by an option to extend the lease term are included in the lease term if the lessee is reasonably certain to exercise the option. The same rationale applies to termination options. The term covered by a termination option is included in the lease term if the lessee is reasonably certain not to exercise the option. Otherwise, the lease term ends at the point in time when the lessee can exercise the termination option. If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. Lessee’s incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. From the beginning of the lease term onwards, leases are recognised by the Group as ROU assets and the corresponding lease liability to the lessor is reported under other liabilities. Lessees are allowed to exercise the optional exemptions for short term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less.

Initial measurement

Lease liability is initially recognised at present value of remaining lease payments.

The ROU asset is initially measured at cost, which comprises the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset to the conditions of the lease, unless those costs are incurred to produce inventories or the site on which it is located, less any lease incentives received. The lease payments made at or before the commencement date are considered in the measurement of ROU asset and consequently the amount of ROU asset at initial recognition differs from the amount of lease liability at initial recognition.

Subsequent measurement

Subsequently, the lease liability is measured at amortised cost using the effective interest rate method. The lessee shall measure the lease liability by reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications. Subsequently, a lessee shall measure the ROU asset applying a cost model where the ROU asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term (consider purchase option).

Modification of leasing contracts means change in contracted conditions (for example, increase or decrease of leasing volume, change of the period or the price of the leasing etc.). Modification can be treated as a separate leasing or the change of the existing leasing contract. The change is the existing leasing will be treated as a new leasing if there is a significant change in the volume or the price of the leasing. If the change in the existing leasing contract is not treated as a separate leasing, the existing leasing contract will be re-measured and existing leasing contract will be corrected through profit or loss.

M) Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with the National bank of Serbia and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

For the purposes of the cash flow statement, cash comprises balances with less than a three-month maturity from the date of acquisition, including cash and non-restricted balances with the National bank of Serbia, repo transactions, loans and advances to banks and short-term government securities.

N) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the Group, they are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

O) Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees and loan commitments are initially recognised in off-balance sheet records the consolidated financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit or loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the date of consolidated statement of financial position in accordance with the instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group.

P) Employee benefits

(a) Pension obligations

The Group operates a defined contribution pension plan. The Group companies pay contributions to publicly administered pension insurance plans on a mandatory basis.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The liability recognised in the statement of financial position is the present value of the defined post-employment benefit obligation at the balance sheet date. The defined benefit plans arise from plans that are unfunded. As a rule, the obligation is calculated annually by independent actuaries. The present value of the obligation is determined by discounting the estimated future cash outflows (e.g. taking into account mortality tables and salary increases) using interest rates of high-quality government bonds that are denominated in the currency in which the obligation will be paid, and that have terms to maturity approximating to the terms of the related pension liability, where applicable, or comparable similar interest rates which were estimated by the Group.

(b) Other employee benefits

The Group companies provide termination benefits, as required by labour laws in Serbia. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The defined benefit obligation is valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The assumptions used by the actuary to calculate the retirement benefits for the Group are as follows:

- Average salary in October 2020 for the Serbian economy as a whole;
- Estimated annual increase in salaries of 6.00% (31.12.2019: 3.00%);
- Discounting rate of 5.05% (31.12.2019: 5.00%); and
- Fluctuation rate of 6.00% (31.12.2019: 2.00%).

R) Current and deferred income tax

(a) Current income tax

Income tax represents the amount calculated and paid to the tax authorities, based on legislation in the Republic of Serbia. Estimated monthly instalments are calculated by the tax authority and paid in advance on a monthly basis.

Income tax at the rate of 15% (2019: 15%) is payable based on the profit disclosed in the Tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year. The tax return is submitted to the tax authorities 180 days after tax period observed.

Separate tax balances of each Group`s entity for 2020 has not been submitted until the day of the Group financial statements, since the deadline for the submission is 180 days from the day the tax is determined. The Group has calculated the tax effects on the basis of the Law on tax on profit of the Serbian legal entities. The Group entities, separately, have not yet conducted a study of transfer prices, but the management considers that it will not have substantial effects on 2019 or it will have minimal adjustments on the basis of transactions with related persons. During 2019 there were no significant changes in the types of services compared to the previous year.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities as at 31 December 2020 are measured by using 15% (2019:15%).

Changes of deferred taxes related to fair value re-measurement of FVOCI instruments are charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The presentation in the Consolidated Statement of Other Comprehensive Income is made on a gross basis. At the time of sale, the respective deferred taxes are recognised in the Consolidated statement of profit and loss and other comprehensive income together with the deferred gain or loss.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. The rates enacted or substantively enacted at the date of consolidated statement of financial position are used to determine deferred income tax.

Deferred tax assets are recognised for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realisation (utilisation) of deductible temporary differences, unused tax assets and unused tax liabilities.

Deferred tax related to fair value re-measurement of FVOCI instruments, which are charged or credited directly to other comprehensive income is also credited or charged directly to other comprehensive income and subsequently recognised in the profit and loss together with the deferred gain or loss.

S) Borrowings (liabilities to international financial institution`s) and subordinated debt

Borrowings and subordinated debt are recognised initially at fair value net of transaction costs incurred. Borrowings and subordinated debt are subsequently measured at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit and loss over the period of the borrowings using the effective interest method.

T) Subscribed capital and capital reserves

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group’s shareholders.

U) Repossessed property

In certain circumstances, property is repossessed following the foreclosure of loans that are in default. Repossessed properties are measured at the lower of the carrying amount and fair value less costs to sell and are reported in “other assets”.

A repossessed property is expected to be sold within one-year period, except if there is a delay caused by events or circumstances beyond the entity’s controls and there is sufficient evidence that the Group remains committed to its plan to sell the asset. In case the Management decides to use the item in the course of the Group's business operations, the item has to be reclassified into the respective property, plant and equipment account.

In case the Management decides to rent the item for a period longer than 5 years, the item has to be reclassified into the investment property.

V) Transaction with related parties

Related parties include all subsidiaries of ProCredit Holding, associates, directors, their close relatives, companies owned or controlled by them, and companies whose financial and operating policies they can influence.

Transaction of similar nature are disclosed in aggregate. All transactions with related parties are realized in the normal course of business.

W) Critical accounting estimates and judgments

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

(a) Expected Credit Loss measurement

The Group reviews its loan portfolios in order to assess impairment at least on a monthly basis. The methodology is based on recognition of expected credit losses at all times in order for the amount of expected credit losses recognized as at each reporting date to reflect changes in credit risk of financial instruments. Loss allowances are based on expected credit losses associated with the probability of default in the next twelve months, unless a significant increase in credit risk has occurred. The necessity of loss allowance for lifetime expected losses occurs when significant increase in credit risk is identified since the date of recognition of an exposure. The objective of impairment requirements is for expected credit losses to be recognized for all financial instruments for which significant increase in credit risk occurred since initial recognition - irrespective of whether assessment is made on an individual or collective basis - taking into account all reasonable and available information, including forward looking information. This is a forward looking model and replaces the model of occurred losses for recognizing credit losses in the sense that it is no longer necessary for an unforeseen event (trigger) to occur in order for credit losses to be recognized. Measurement of expected credit losses is based on all reasonable and reliable information available without undue cost, where included information is historical, current and forward looking. Average PD rates applied according to stages are presented in Note 6.1.1 Classification of receivables from credit placements and loss allowance for credit risk. Impairment losses for individually significant placements are based on assessment of discounted future cash flows of individual placements, keeping in mind repayments and recoveries from assets provided as collateral for such placements.

(b) Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Group assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty per cent, the Group fully provides for the total amount of the liability.

(c) Fair value of financial assets and liabilities

Fair value of investments based on active markets is based on the current offer prices (financial assets) or demand (financial liabilities). If the market of financial assets is not active, the Group determines the fair value of assessment techniques. This includes the application of the recent transactions between independent parties, analysis of discounted cash flows and other estimates techniques used by participants on the market. The assessment models reflect the current state of the market at the date of measurement and do not necessarily present conditions in the market before or after the date of measurement. At balance sheet date, the management is reviewing the models to ensure that they are properly reflected in the current market conditions, including the relative liquidity of the market and interest margins.

(d) The useful life of non-financial property, plants and equipment and investment property

Determining the useful period of non-financial assets as property, plants and equipment ("fixed assets") and investment property is based on the previous experience with similar means, technical development and changes affecting a large number of economic or industrial factors. The adequality of the beneficial lifetime is reviewed at a yearly basis, or whenever there is an indication that there has been a significant change in the factors that have been the basis for the use of the useful lifetime.

(e) Impairment of non-financial assets

On the consolidated statement of financial position date, the management analyzes the values in which non-financial assets. If there is an indication that some means are impaired, the reimburse amount of the assets is estimated to determine the amount of impairment. If the amount is compensated by an asset evaluated as lower than the value in which the asset is displayed, the existing value of that asset is reduced to the amount of reimbursable.

Consideration of the impairment of requests from the management of the judgment in terms of cash flows, growth rate and discount rates for units that generate cash flows.

(f) Classification of financial assets

The Group assesses the business model under which funding is being held. Also, the Group estimates whether the contracted cash flows of financial assets are only payment of interest and principal.

(g) Leasing

The incremental borrowing rate, which is used as a discount rate for evaluating the present value of the leasing of payment, is determined by analyzing internal sources of information about borrowing and correcting to reflect contractual leasing conditions and the type of funds taken into leasing.

(h) Severance pay when retiring

The costs of determining fees for employees when retiring when they meet the legal requirements are determined by the implementation of the actuarial assessment. Actuarial assessment includes the assessment of the discount rate, future wage movements, mortality rate and the fluctuation of employees.

X) Investment property

Investment property is defined as property (land and/or building) that is held to earn rentals or for capital appreciation or for both, rather than for use in supply of services or for administrative purposes or sale in the ordinary course of business.

If only a portion of a property is used as investment property, the portions have to be accounted for separately as long as they can be sold separately. If the portions could not be sold separately, the property is accounted for as investment property only if an insignificant portion is held for company’s own use or for sale.

If the Group uses a portion of a property for its own use and rents out the rest (for example certain floors of a head office building), the total value of the property shall be split into Property, plant and equipment and Other assets/Investment properties.

Investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

The Group applies the cost model for measurement after initial recognition.

Y) Assets held for sale

Assets held for trade is accounted for in accordance with the instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group and expected to be sold within one year period, except if there is a delay caused by events or circumstances beyond the entity's controls and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

The Group must provide evidence that it is committed to sell a property in order to classify it as "held for sale". Therefore all steps that have been undertaken to dispose a property need to be documented, including submitted offers, minutes of sales negotiations, correspondence with sales agents etc.

Assets held for sale initially is measured by lower amount of carrying amount (gross outstanding amount of respective loan) and fair value minus cost of sale. Subsequently the Group test the need for impairment at least annually by means of an external valuation report. The Group does not recognise depreciation for assets held for sale. The subsequent impairment test should take into account all potential indications for impairment as outlined in the Group Collateral Valuation Policy. In case these factors are insufficiently considered in the valuation report, the fair value deducted from that report must be reduced by a so-called "haircut", which reflects an indication for impairment. Not achieving to sell the property for a longer period of time shall be considered an additional indication for impairment.

3. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks. This exposure demands organized activities related to analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects of risks on the Group's financial performance.

The Group's risk management procedures are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management procedures and systems to reflect changes in markets, products, legislature and emerging best practice.

Risk management is carried out by the Group's Risk Management Unit and Credit Risk Department, specialized risk committees (ALCO and Credit Risk Committee) under risk strategy and policies approved by the Board of Directors. The Risk Management Unit identifies, evaluates financial risks and makes proposals to the risk committees to hedge those risks in close co-operation with the Group's business units. The Board of Directors provides principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are:

- Credit risk,
- Liquidity and funding risk,
- Market risks (including currency risk, interest rate and other market price related risks), and
- Operational and other risks.

A) Management of the Overall Risk Profile

1. Capital management – objectives

Overall, the Group is not allowed to take on more risk than it is capable of bearing. This rule is implemented using different indicators (risk appetite indicators) for which reporting triggers and limit ratios have been established through Group's Risk Management Strategy. The indicators for the Group are calculated in addition to local regulatory standards - a Basel III capital adequacy calculation, a Tier 1 leverage ratio and an ICAAP model. Results for the different indicators are to be presented further on.

The capital management of the Group has the following objectives:

- Full compliance with external capital requirements set by the banking sector regulators in the jurisdictions where the PCH entities operate.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Group to implement its plans for continued growth in accordance with its business strategy.

2. Capital management – processes and procedures

The capital management of the Group is governed by the Group's Capital Management Policy and the Group's Risk Management Strategy. Regulatory and Basel III capital ratios, the Tier 1 leverage ratio and the ICAAP ratios are monitored on a monthly basis by the Group's Asset and Liability Management Committee and the Group Risk Management Committee.

External minimum capital requirements for group are imposed and monitored by National Bank of Serbia.

Capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the PCH in accordance with the guidelines of the Basel Committee (Basel III).

The following table shows the Basel III capital adequacy ratios calculated in accordance with requirements of the PCH.

	Non audited	
In TRSD	**31.12.2020**	**31.12.2019**
Common equity Tier 1 capital	16,377,009	15,713,494
Additional Tier 1 capital	-	-
Tier 2 capital	1,433,113	1,711,858
Total capital	**17,810,122**	**17,425,352**
Total risk weighted assets	**96,101,013**	**97,785,339**
Common equity Tier 1 capital ratio	17.04%	16.07%
Tier 1 capital ratio	17.04%	16.07%
Total capital ratio	**18.53%**	**17.82%**

	Non audited			
	31.12.2020		31.12.2019	
In TRSD	**Risk weighted assets**	**Capital requirements**	**Risk weighted assets**	**Capital requirements**
Credit risk	89,087,407	7,126,993	89,774,941	7,181,995
Market risk	444,117	35,529	861,940	68,955
CVA Risk	11,039	883	3,936	315
Operational risk	6,558,449	524,676	7,144,521	571,562
Total	**96,101,012**	**7,688,081**	**97,785,338**	**7,822,827**

ICAAP (Economic perspective)

In the economic perspective, the risk-taking potential is defined as the total amount of capital instruments available to cover risks arising from business operations. The risk-taking potential is calculated as follows:

Risk-taking potential = Total balance sheet equity – total balance sheet intangible assets – deferred tax assets + total balance sheet subordinated debt

The table below shows the distribution of the RAtCR (Resources available to cover risk) among the different risk categories as determined by the Group Risk Management Committee and the level of utilization as of the end of December 2020.

	Non audited		
ICAAP - Economic perspective 2020	**Limit (in %)**	**Actual (in TRSD)**	**Limit Used (in % of limit)**
Credit Risk (Clients)	≤ 38	5,709,220	32.3
Counterparty Risk		255,244	
Interest Rate Risk	≤ 10	918,226	5.0
Foreign Currency Risk	≤ 2	27,164	0.1
Operational Risk	≤ 10	524,676	2.8
Total	**≤ 60**	**7,434,530**	**40.3**

The table below shows the leverage ratio that represents the ratio between the Group's share capital and the amount of the Group's exposure (based on the Basel III calculation method) according to which the Tier 1 leverage ratio of the Group should not fall below 5%. At the end of 2020, the unaudited ratio was 10.6% (2019: 11.9%)*, well above this minimum.

	Non audited	
In '000 EUR	**31.12.2020**	**31.12.2019**
Equity	139,284	133,626
Assets	1,313,578	1,126,652
Leverage ratio	**10.6%**	**11.9%**

Credit risk

Credit risk is defined as the danger that the party to a credit transaction will not be able, or will only partially be able, to meet its contractually agreed obligations towards the Group. Credit risk arises from customers' credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk we face. The following table shows the maximum exposure to credit risk:

In TRSD	**31 December 2020**
Central bank balances	18,342,922
Loans and advances to banks	9,479,865
Investment securities	5,290,744
Loans and advances to customers	110,074,952
Other assets (financial instruments)	513,569
Contingent liabilities and commitments	14,967,289
Total	**158,669,341**

In TRSD	**31 December 2019**
Central bank balances	15,247,347
Loans and advances to banks	10,081,696
Derivative financial assets	22
Loans and advances to customers	96,150,331
Other assets (financial instruments)	478,241
Contingent liabilities and commitments	12,927,406
Total	**134,885,043**

1. Credit default risk from customers' credit exposures

The Group defines credit default risk from customers' credit exposures as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customers' credit exposures is based on a thorough implementation of the Group's lending principles:

- intensive analysis of the debt capacity of the Group' clients,
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties,
- rigorous avoidance of over indebting our clients,
- building a personal and long-term relationship with the client and maintaining regular contact,
- close monitoring of loan repayments and early warning indicators,
- practicing tight arrears management,
- exercising strict collateral collection in the event of default,
- investing in well-trained and highly motivated staff,
- implementing carefully designed and well-documented processes, and
- rigorous application of the "dual control principle".

The group's framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk in the group and at the level of each individual bank, the principles for the organization of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the group's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, loss allowances and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The Group divides its credit exposures mainly into small and medium-sized business credit exposures and credit exposures to private clients. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: the degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back-office functions up to the management level is applied for risk-relevant operations.
The experience of the Group has shown that a careful creditworthiness assessment is a necessary form of credit risk management. The credit decisions of the Group are therefore based predominantly on an analysis of the client's financial situation and on an assessment of creditworthiness. Regular on-site visits are performed for clients to ensure an adequate consideration of their specific features and needs.

All credit decisions in the Group are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on medium credit exposures are taken by credit committees at the groups' head offices.

The most important factor for credit committee decisions is a funding and collateral structure that is based on the client's needs and conditional on the respective risk profile. In this context, the following general principles apply: the lower the loan amount, the more detailed the documentation provided by the client, the shorter the loan period, the longer the client's history with the group, and the higher the client's account turnover with the group, then the lower the collateral requirements will be.

The group credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the term of the exposure, loans may also be issued without being fully collateralized. As a general rule, credit exposures with a higher risk profile and a longer maturity period are covered with solid collateral, mostly through mortgages.

As a rule, the valuation of collateral is based on assessments conducted by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, annual plausibility checks of collateral value are a fixed component of the monitoring process for exposures. The assessments are updated at regular intervals, with plausibility checks being carried out by specialized Group staff.

Based on our collateralization requirements, securing loans with mortgages is among the most important instruments for limiting credit risk. Although the largest share is concentrated in real estate, its distribution by individual purpose, location and associated market is diversified across regions and economic sectors, similar to the distribution of the loan portfolio of the it Group. In this context, the concentration risk via collateral is considered to be low.

Loan collateral	31 December 2019	31 December 2020
Mortgages	72.9%	68.6%
Cash collateral	2.5%	2.1%
Financial guarantees	12.0%	17.6%
Other	12.6%	11.7%
Total	**100.0%**	**100.00%**

The early detection of increases in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in rapid assessment of the degree of financial difficulty faced by clients. The PCH has developed indicators for the early identification of risks based on quantitative and qualitative risk features; these indicators are implemented by the banks. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk.

The most significant new factor influencing credit risk in 2020 was the outbreak of the COVID-19 pandemic. Our activities have therefore also focused on assessing the effects of the pandemic on the credit portfolio and on a corresponding risk-mitigation strategy.

Within the framework of the international and national aid measures which have been enacted, we have adopted a conservative approach. Thus, we have always envisaged moratoria only as a temporary measure for short-term liquidity problems. Moratoria were typically issued for a period of three months (for all economic sectors) to six months (for the most affected sectors). The share of the loan portfolio in moratorium peaked at 81% in May 2020 due to measures adopted by the National Bank of Serbia. In line with EBA's interpretations, applying these moratoria did not automatically lead to forbearance measures or risk classification downgrades. However, where necessary, restructuring measures were already taken during 2020 to prevent a possible default by the customer.

In a further step, we analysed and categorised the entire loan portfolio. Account was taken for both the expected impact of the pandemic on the economic sector/sub-sector and the company's financial performance before the pandemic. This facilitated prioritisation in the monitoring of individual exposures. The final immediate response to the pandemic outbreak was a revised assessment process for new loan disbursements and subsequent performance monitoring.

On the basis of asset quality indicators, the loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on an exposure being past due, a risk classification system, and on additional risk characteristics; these include the initiation of bankruptcy proceedings or similar court procedures, as well as restructurings or collateral liquidations by other banks. In addition, other factors which indicate a significant deterioration of the economic situation of the client can also play a role. The portfolio indicators allow for a clear overview of the quality of the group's portfolio and that of an individual bank, and represent one of the most important tools for the credit risk management process.

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of business activities. Decisions on measures to reduce the credit default risk for individual credit exposures are taken by the authorised decision-making bodies for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure.

One of the first steps in managing the exposure is to determine the current economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay. When a credit exposure is classified as defaulted, specialised officers take over responsibility for dealings with the client. These officers are supported by the legal department of the respective bank. Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

The following table presents the value of repossessed property:

In TRSD	**12/31/2019**	**12/31/2020**
Real estate	120,645	108,097
Other fixed assets	223	-
Movable property	-	1,871
Repossessed property	**120,868**	**109,968**

Loss allowances

The central element Impairment Model approach for the Group is based on instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group - the expected credit loss model for the recognition and measurement of impairment. The model requires the recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments.

As such, the model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event.

Specifically, the model addresses requirements the in accordance with the instructions issued by group management of ProCredit Holding AG & Co. KGaA Group to the Group on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information.

Expected credit loss (ECL) – an unbiased and probability-weighted amount, calculated as the difference between the cash flows due to the group in accordance with contractual terms of a financial instrument and the cash flows that the group expects to receive. ECL is based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECL is calculated using the following parameters: exposure at default (EAD), probability of default (PD) and loss given default (LGD) and is discounted to a present value.

This model outlines three stages based on changes in the exposure’s credit risk since the date of initial recognition.

Stage 1 comprises exposures for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date or for which no triggers for Stage 2 or 3 allocation apply. Assets are allocated in Stage 1 upon initial recognition except for purchased or originated credit impaired (POCI) assets which are treated and reported separately. For assets in Stage 1, the expected credit losses arising from possible default events within the 12 months following the reporting date (12 month ECL) are recognised as expenses. For exposures with a remaining maturity of less than 12 months, the used probability of default (PD) reflects the remaining maturity.

Credit exposures are not considered to have low credit risk simply because of the value of collateral if the loan would not be considered low credit risk without that collateral. Loan contracts are also not considered to have low credit risk simply because they have a lower risk of default than other credit products or relative to the credit risk of the jurisdiction within which an entity operates.

All exposures in this stage consist of the portfolio that does not show any signs of increased credit risk.

Stage 2. comprises financial assets for which credit risk has significantly increased since initial recognition, but for which there is no objective indication of impairment. This assessment takes account for appropriate and plausible information. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity, i.e. lifetime expected losses (lifetime ECL not credit impaired).

The significant increase in credit risk is established based on both quantitative and qualitative information:

- Based on the comparison of the remaining lifetime PD of an exposure at each reporting date against its remaining lifetime PD at the date of origination. The loss parameters are based on the internal risk classification system for the rated exposures. A SICR occurs if the difference PDs exceeds a pre-defined threshold and the respective asset will be transferred from Stage 1 to in Stage 2. Inversely, a transfer from Stage 2 to 1 is possible when the associated credit risk is reduced significantly.

When at least one of the following events is detected:

- Customer is in arrears more than 30 days but less than 90 days, and
- Standard or watch restructuring event(s).

After the exposure is transferred to Stage 2, lifetime expected credit loss must be determined.

Stage 3 includes exposures that have objective evidence of impairment at the reporting date. The calculation of loss allowances is performed based on the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired).

An exposure is considered as credit impaired and transferred to Stage 3 when the following or similar characteristics apply at the reporting date:

- exposure is in arrears more than 90 days,
- qualitative and quantitative criteria based on which the group considers the clients' unlikeliness to pay in full without realising collateral,
- client is assigned to Risk Classification 8,
- impaired restructuring event(s),
- bankruptcy procedure is initiated,
- the group has started legal proceedings against the client,
- credit fraud event, and
- other signs of impairment indicating that full repayment from the client cannot be expected.

After being transferred into Stage 3, the lifetime expected credit loss must be determined.

When determining provisions in Stage 3, a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine provisioning, taking account for the expected inflows, including collateral liquidation. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk.

Contamination principle

There is no direct contamination across different facilities of the same client / client group for the purpose of stage classification and provisioning.
The contamination is applicable regarding the client status (restructured or non-restructured) and functions on the client level through the risk classification. In this sense, the contamination principle applies to all on-balance sheet credit exposures and all off-balance sheet exposures towards a client. Non-financial guarantees such as performance letters of guarantee are treated separately due to their nature, hence incurred losses or expected losses from such facilities do not trigger contamination of parallel facilities. If a client has several parallel credit facilities (instalment loans, overdrafts, credit lines, credit cards, etc.), the highest arrears category and the worst restructuring category determines the risk classification of the client. In case of connected entities, the treatment is based on the assessment of the possibility for the increased risk of one entity to lead to an increased risk of the other connected entity.

The contamination principle is not extended to non-credit generated receivables from clients such as account maintenance fees, other commissions and fees, etc.

Stage 1 (12 - month expected losses)	**Stage 2** (lifetime expected losses)	**Stage 3** (lifetime expected losses)
In general, all newly disbursed exposures Exposures with no signs of a significant increase in credit risk	Significant increase in credit risk PAR30-90 Standard restructuring Watch restructuring Multiple restructurings	PAR90 Impaired restructured exposures Court procedure Bankruptcy Credit fraud Risk classification 8 Other signs of impairment
Process of managing the loan portfolio		
Performing loan portoflio with no significant increase in credit risk since origination	Loan portfolio with **increased credit risk** since origination. Depending on the risk level, could be subject to intensified risk management	Loan portfolio under **problem loan management / workout** procedure

As part of the exposures allocated to Stage 3, the PCH has introduced special treatment of POCI (Purchased or Originated Credit Impaired) exposures. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Although POCI contracts still belong to the loan portfolio in Stage 3, the general impairment model does not apply to purchased or originated credit-impaired assets. For such assets, impairment is determined based on full lifetime ECL on initial recognition. However, lifetime ECL are included in the estimated cash flows when calculating the effective interest rate on initial recognition. The effective interest rate for interest recognition throughout the life of the asset is a credit-adjusted effective interest rate. As a result, no loss allowance is recognized on initial recognition.

In 2019 and 2020, there are no financial assets that have been impaired and where the contractual terms have been significantly modified.

Modifications are defined as any change in the contractual conditions of loan with an impact in its gross carrying amount. This impact is measured through an assessment of the difference in present value between the future expected cash flows after the modification has taken place, and the originally cash flow before the modification.

The type of modification is determined by applying the net present value test by comparing the present value of the discounted expected cash flows after the modification, against the present value of the discounted original cash flow of the loan before the modification. The results can lead to a significant or non-significant modification, based on a 10% threshold.

Modifications below 1% are not recorded as insignificant.

Classification as significant or insignificant will determine the type of accounting treatment that will be applied to the modified contracts.

Write off

In general, the group shall write off only such credit exposures for which do not expect to receive any further recoveries. The group apply the following guidelines when deciding to write off credit exposures:

- credit exposures of EUR 10,000 or less are written off after 180 days in arrears, and
- credit exposures of more than EUR 10,000 are written off after 360 days in arrears, unless the group decides to keep the credit exposure active, e.g. to allow for an on-going recovery process to finish.

All credit exposures have been fully provisioned by the time they are written off.

2 Credit portfolio risk from customer lending

The granularity of the loan portfolios is a highly effective credit risk mitigating factor. The core business of the group, lending to small and medium enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to larger credit exposures constitutes a supplementary area of our business in terms of our overall strategic focus. Most of these clients are enterprises that have been working with our group for years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of both the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

In TRSD As of 31 December 2020	**EUR/USD < 50,000**	**EUR/USD 50,000 - 250,000**	**EUR/USD > 250,000**	**Total**
Business loans	**12,309,650**	**30,419,376**	**62,885,277**	**105,614,303**
Wholesale and retail trade	1,191,950	5,529,800	13,332,881	20,054,631
Agriculture, forestry and fishing	8,363,251	10,130,690	14,079,231	32,573,172
Production	1,268,247	7,841,348	20,099,433	29,209,028
Transportation and storage	511,237	1,762,827	2,696,351	4,970,415
Other economic activities	974,965	5,154,711	12,677,381	18,807,057
Private loans	**3,035,120**	**2,109,145**	**379,402**	**5,523,667**
Housing	2,019,199	1,424,658	116,319	3,560,176
Investment loans	916,559	684,487	263,083	1,864,129
Others	99,362	-	-	99,362
Customer loan portfolio (gross)	**15,344,770**	**32,528,521**	**63,264,679**	**111,137,970**

In TRSD As of 31 December 2019	EUR/USD < 50,000	EUR/USD 50,000 - 250,000	EUR/USD > 250,000	Total
Business loans	**10,935,670**	**28,073,664**	**53,153,708**	**92,163,042**
Wholesale and retail trade	1,019,021	5,278,348	9,737,655	16,035,024
Agriculture, forestry and fishing	7,485,806	9,612,978	13,972,716	31,071,500
Production	1,176,151	7,201,167	17,495,044	25,872,362
Transportation and storage	475,292	1,608,474	2,495,506	4,579,272
Other economic activities	779,400	4,372,697	9,452,787	14,604,884
Private loans	**3,105,347**	**1,812,115**	**96,827**	**5,014,289**
Housing	2,069,156	1,223,680	39,233	3,332,069
Investment loans	932,521	588,435	57,594	1,578,550
Others	103,670	-	-	103,670
Customer loan portfolio (gross)	**14,041,017**	**29,885,779**	**53,250,536**	**97,177,332**

The structure of the loan portfolio is regularly reviewed in order to identify concentration risks. Events which could have an impact on large areas of the loan portfolio (common risk factors) lead, if necessary, to limits of the exposure towards certain groups of clients, e.g. according to specific sectors of the economy or geographical areas.

The Group follows a guideline that limits concentration risk in their loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the PCH Group Risk Management Committee. No single large credit exposure may exceed 25% of regulatory capital.

Larger credit exposures are particularly well analyzed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Committee of the Group. Full information about any related parties is typically collected prior to lending. All in all, this results in a high portfolio quality and comparatively little need for allowance for individual impairment.

The following table presents gross and net exposures, broken down according to internal risk classification and economic sector and by stage.

In TRSD As of 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-5: Performing	101,120,499	93,705	-	-	101,214,204
Grades 6-7: Underperforming	54,020	1,638,186	-	-	1,692,206
Grade 8: Credit-impaired	-	-	1,071,454	-	1,071,454
Non-rated exposures	6,730,279	187,080	242,746	-	7,160,105
Gross carrying amount	**107,904,798**	**1,918,971**	**1,314,200**	**-**	**111,137,969**

In TRSD As of 31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-5: Performing	89,188,866	280,925	-	-	89,469,791
Grades 6-7: Underperforming	110,754	368,939	-	-	479,693
Grade 8: Credit-impaired	-	-	984,554	-	984,554
Non-rated exposures	5,672,402	159,950	410,944	-	6,243,296
Gross carrying amount	**94,972,022**	**809,814**	**1,395,498**	**-**	**97,177,334**

In TRSD	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transport and storage	Other economic activities	Housing	Investment loans and OVDs	Others	
AS OF 31 DECEMBER 2020									
Stage 1									
Gross outstanding amount	19,551,007	31,449,152	28,282,550	4,886,442	18,480,308	3,392,939	1,781,352	81,048	**107,904,798**
Loss allowance for loans to customers	(66,524)	(117,739)	(90,479)	(21,685)	(57,663)	(27,564)	(13,278)	(402)	**(395,334)**
Net outstanding amount	**19,484,483**	**31,331,413**	**28,192,071**	**4,864,757**	**18,422,645**	**3,365,375**	**1,768,074**	**80,646**	**107,509,464**
Stage 2									
Gross outstanding amount	203,746	477,585	781,877	52,737	223,538	136,429	38,690	4,369	**1,918,971**
Loss allowance for loans to customers	(6,210)	(18,152)	(32,399)	(1,940)	(5,293)	(11,492)	(1,389)	(37)	**(76,912)**
Net outstanding amount	**197,536**	**459,433**	**749,478**	**50,797**	**218,245**	**124,937**	**37,301**	**4,332**	**1,842,059**
Stage 3									
Gross outstanding amount	299,877	646,434	144,602	31,237	103,211	30,808	44,086	13,945	**1,314,200**
Loss allowance for loans to customers	(163,762)	(245,281)	(70,211)	(20,636)	(43,895)	(13,162)	(22,686)	(11,138)	**(590,771)**
Net outstanding amount	**136,115**	**401,153**	**74,391**	**10,601**	**59,316**	**17,646**	**21,400**	**2,807**	**723,429**
AS OF 31 DECEMBER 2019									
Stage 1									
Gross outstanding amount	15,890,414	30,018,322	25,631,064	4,372,760	14,414,533	3,163,651	1,395,557	85,720	**94,972,021**
Loss allowance for loans to customers	(55,925)	(123,877)	(88,917)	(17,983)	(50,437)	(27,584)	(11,744)	(436)	**(376,903)**
Net outstanding amount	**15,834,489**	**29,894,445**	**25,542,147**	**4,354,777**	**14,364,096**	**3,136,067**	**1,383,813**	**85,284**	**94,595,118**
Stage 2									
Gross outstanding amount	25,693	310,048	100,438	182,051	42,103	104,559	42,666	2,253	**809,811**
Loss allowance for loans to customers	(1,013)	(13,212)	(2,987)	(2,614)	(2,066)	(9,781)	(2,809)	(58)	**(34,540)**
Net outstanding amount	**24,680**	**296,836**	**97,451**	**179,437**	**40,037**	**94,778**	**39,857**	**2,195**	**775,271**
Stage 3									
Gross outstanding amount	118,916	743,129	140,860	24,462	148,247	63,860	140,327	15,696	**1,395,497**
Loss allowance for loans to customers	(48,550)	(301,981)	(61,746)	(13,997)	(55,606)	(26,706)	(94,182)	(12,792)	**(615,560)**
Net outstanding amount	**70,366**	**441,148**	**79,114**	**10,465**	**592,641**	**37,154**	**46,145**	**2,904**	**779,937**

The establishment of loss allowances for the 2020 financial year was impacted by the COVID-19 pandemic. On the one hand, there was a rise in the number of exposures with an individually identified increase in credit risk. On the other hand, the subdued expectations for macroeconomic growth were taken into account when adjusting the model specifications.

Covid-19

In TRSD	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers					
Gross carrying amount as of 31 December 2020	107,904,798	1,918,972	1,314,201	-	111,137,971
– out of which gross carrying amount of loans **currently** under moratorium due to COVID-19:	-	-	-	-	-
moratorium only	3,200,561	4,822	954	-	3,206,337
moratorium plus restructuring	18,669	4,229	-	-	22,898
– out of which gross carrying amount of loans with **expired** moratorium due to COVID-19:	-	-	-	-	-
moratorium only	60,910,505	1,118,037	465,972	-	62,494,514
moratorium plus restructuring	2,205	264,547	115,288	-	382,040

In TRSD	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance for loans and advances to customers					
As of 31 December 2020	(395,334)	(76,913)	(590,771)	-	(1,063,018)
– out of which gross carrying amount of loans **currently** under moratorium due to COVID-19:					
moratorium only	(12,235)	(104)	(684)	-	(13,022)
moratorium plus restructuring	(160)	(312)	-	-	(472)
– out of which gross carrying amount of loans with **expired** moratorium due to COVID-19:					
moratorium only	(214,798)	(34,404)	(228,609)	-	(477,811)
moratorium plus restructuring	(5)	(17,588)	(34,919)	-	(52,512)

C) Market risk

The policy of the Group is not to speculate and to keep all forms of risk at an acceptable level. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group complies with the limits on the value of risk that may be accepted as prescribed by the National bank of Serbia as well as with limits set by risk appetite which are incorporated into Group's Risk Management Strategy.

C.1. Foreign currency risk

Foreign currency risk exposure is monitored regularly through compliance with the regulatory limits prescribed by the National Bank of Serbia. The Group maintains its foreign currency position by granting loans with foreign currency clauses. Furthermore, the Group takes an active approach to currency risk management, and prudently assesses and manages open foreign currency position with foreign currency swaps and by keeping open currency risk exposure within the limits set by the National bank of Serbia, as well as adhering to internal rules and limits prescribed by the Group's Risk Management Strategy and FX Policy.

The following table provides an overview of the sensitivity analysis of the exposure to currency risk assuming a change in the local currency exchange rate of 15%:

	Open Currency Position based on-balance data on 31 December		Effect of 15% Depreciation of RSD to Open Currency Position		Effect of 15% Appreciation of RSD to Open Currency Position	
Currency	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
USD	(974,285)	(742,285)	(146,143)	(111,343)	146,143	111,343
EUR	197,656	1,918,483	29,648	287,772	(29,648)	(287,772)
Other Currencies	8,603	19,562	1,290	2,934	(1,290)	(2,934)

C.2. Interest rate risk

The Group's main interest rate risk indicator measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items. The indicator quantifies the loss in value of the Group that would result from a sudden shift of interest rates. The calculation of the indicator is based on different parallel shifts (shocks) of the interest rate curves. For EUR or USD, a parallel shift of the interest rate curve is assumed by +/- 200 bps. The size of the shocks for local currency is derived from historic interest rate volatilities over the last seven years. The resulting impact is limited to 10% of the Group's Basel capital; a temporarily higher limit can be approved by the Group Risk Management Committee (PCH level) subject to the condition that the Group will take mitigating action to reduce the risk.

The table below summarizes the Group's exposure to interest rate risks, including standard scenario risk and stress scenario on basis risk

	Standard scenario		Stress scenario on basis risk	
Currency	**31.12.2020 Economic value Impact**	**31.12.2019 Economic value Impact**	**31.12.2020 Economic value Impact**	**31.12.2019 Economic value Impact**
EUR	(261,706)	(175,994)	767,213	351,261
Local currencies	(656,520)	(202,245)	442,715	23,167
Total non-netted impact	**(918,226)**	**(378,239)**	**1,209,928**	**374,428**
Total in relation to capital	**5.15%**	**2.22%**	**6.78%**	**2.20%**

D) Liquidity risk

Liquidity risk is measured, monitored and limited based on a standard liquidity gap analysis. In order to manage liquidity on a daily level, the Group works with cash flow analyses, which is designed to provide a more realistic picture of the future short-term liquidity situation. The analysis includes assumptions about deposit and loan developments and helps to forecast highly liquid assets (as described below) in the future.

The following table shows the cash flows of financial instruments and further cash-relevant non-financial instruments of the Group according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

As at 31 December 2020	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**No maturity**	**Total**
Assets							
Cash and central banks balances	20,182,250	-	-	-	-	-	20,182,250
Loans and advances to banks	9,479,865	-	-	-	-	-	9,479,865
Investment securities	-	766,936	-	4,523,808	-	-	5,290,744
Loans and advances to customers	4,981,963	6,913,215	28,464,012	53,603,150	16,440,101	(327,489)	110,074,952
Current Tax assets	-	-	-	-	-	-	-
Other assets	379,965	327	11,728	157,338	-	515,060	1,064,418
Total assets	**35,024,043**	**7,680,478**	**28,475,740**	**58,284,296**	**16,440,101**	**187,571**	**146,092,229**
Liabilities							
Liabilities to banks	2,000,689	3,968,332	4,350,467	-	-	43,727	10,363,215
Derivative financial liabilities	5,385	-	-	-	-	-	5,385
Liabilities to customers	37,042,694	5,884,241	25,495,238	2,670,796	1,069,962	15,974,981	88,137,912
Liabilities to international financial institutions	835,815	1,180,022	6,464,696	16,609,769	4,386,141	-96,834	29,379,609
Subordinated debt	14,208	-	-	1,881,283	-	-	1,895,491
Other liabilities	444,095	-	-	-	-	266,358	710,453
Provisions	-	-	6,926	205,321	-	24,653	236,900
Current tax liabilities	-	-	33,349	-	-	-	33,349
Total liabilities	**40,342,886**	**11,032,595**	**36,350,676**	**21,367,169**	**5,456,103**	**16,212,885**	**130,762,314**
Contingent liabilities	**7,651,284**	**-**	**-**	**-**	**-**	**-**	**7,651,284**
Financial guarantees	**7,651,284**	**-**	**-**	**-**	**-**	**-**	**7,651,284**
Liquidity Gap	**(12,970,127)**	**(3,352,117)**	**(7,874,936)**	**36,917,127**	**10,983,998**	**(16,025,314)**	**7,678,631**

As at 31 December 2019	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	No maturity	Total
Assets							
Cash and central banks balances	17,523,489	-	-	-	-	-	17,523,489
Loans and advances to banks	10,081,696	-	-	-	-	-	10,081,696
Derivative financial assets	22	-	-	-	-	-	22
Loans and advances to customers	3,498,293	7,176,508	31,238,010	39,733,283	14,825,805	-321,568	96,150,331
Current tax assets	-	-	29,322	-	-	-	29,322
Other assets	352,123	76	20,750	227,047	-	466,697	1,066,693
Total assets	**31,455,623**	**7,176,584**	**31,288,082**	**39,960,330**	**14,825,805**	**145,129**	**124,851,553**
Liabilities							
Liabilities to banks	16,014	2,204,865	4,586,119	1,175,928	-	53,074	8,036,000
Derivative financial liabilities	3,918	-	-	-	-	-	3,918
Liabilities to customers	27,585,893	4,263,192	22,188,266	3,397,818	694,214	14,557,027	72,686,410
Liabilities to international financial institutions	137,006	1,129,786	7,101,520	14,096,682	4,639,139	- 27,290	27,076,843
Subordinated debt	14,500	-	-	705,557	1,175,928	-	1,895,985
Other liabilities	529,144	-	-	-	-	141,733	670,877
Provisions	-	-	128,136	24,261	-	-	152,397
Current tax liabilities	-	-	-	-	-	-	-
Total liabilities	**28,286,475**	**7,597,843**	**34,004,041**	**19,400,246**	**6,509,281**	**14,724,544**	**110,522,430**
Contingent liabilities	**3,568,267**	**-**	**-**	**-**	**-**	**-**	**3,568,267**
Financial guarantees	**3,568,267**	**-**	**-**	**-**	**-**	**-**	**3,568,267**
Liquidity Gap	**(399,119)**	**(421,259)**	**(2,715,959)**	**20,560,084**	**8,316,524**	**(14,579,415)**	**10,760,856**

The Group has available stand by line from ProCredit Holding in amount of EUR 10,000,000 in case of liquidity crisis, which was not withdrawn.

The Group is required to keep sufficient liquidity to enable it to remain liquid in the month following the reporting date in a scenario based on very conservative assumptions, especially regarding deposit withdrawals.

In addition to limits and triggers set in accordance with local regulation, as a part of PCH the following key liquidity risk indicators shall be met by the Group at all times for managing liquidity risk:

- “Sufficient liquidity” indicator (SLI): It is defined as the ratio of highly liquid assets and inflows due in the next 30 days to liabilities/outflows due in the next 30 days according to risk scenario assumptions. The limit is at least 1 at all times on total currency level, as well as on total hard currency level and local currency level. This guarantees that the Group has sufficient short-term funds / inflows to cover the assumed liabilities due in the next 30 days.
- Hard currency includes all currencies other than local currency.
- Since the Group has material share of loan portfolio indexed to hard currency, while cash flows are in local currency and accordingly are included in the liquidity gap analysis of local currency, the local currency and hard currency limits are not applicable for the Group.[1]
- “Survival period”: The survival period is the time-period during which the group can meet all its payments due without needing to generate additional (i.e. still not contracted) funds, i.e. the period within which the Group does not have negative liquidity gaps in any of the time-buckets. The survival period is estimated based on risk scenario assumptions. The defined minimum survival period limits is at least 90 days on total currency level.
- Interbank market indicator: Total amount of interbank liabilities is not higher than 40% of the total (uncommitted) interbank lines. This indicator restricts a possible concentration in funding risk by limiting the dependency on usually rather volatile interbank funding.
- Overnight funding indicator: The Group may obtain overnight funding in a maximum amount of 4% of total liabilities[2]. This indicator restricts a possible concentration in funding risk by limiting the dependency on very short-term overnight funding.
- Liquidity Coverage Ratio (LCR) calculated in accordance with the PCH requirements of at least 100%.

The funding structure of the Group is subject to limits on short-term interbank funding. The Group must not rely on overnight funding exceeding 3% of their total liquidity-relevant liabilities and must not draw on more than 35% of their interbank lines at once. Temporarily higher limits can be granted by the Group Risk Management Committee or Group ALCO (PCH level) in in exceptional cases..

The early warning system has the aim of timely identifying an internal or external event that could potentially have a significant negative effect on the liquidity risk situation of the Group, i.e. an "exceptional circumstance". It is composed of a set of internal indicators with Group -wide reporting triggers that capture a potential internal event as well as Group and country-specific market indicators with reporting triggers set by the Group that capture a potential external event and induce ad hoc reporting.

Stress test calculations are performed in order to safeguard the liquidity of the Group even in an extreme case. The Group’s available liquidity reserve is calculated in a stress scenario, which simulates exceptionally high deposit withdrawals and a limited availability of the mandatory reserve.

[1] Exception stipulated in the Group Liquidity Risk Management Policy.
[2] Total liabilities are all on-balance liabilities that are included in the liquidity report: liabilities to banks (incl. PCBs and PCH) and customers, IFIs, debt securities / bonds and subordinated debt).

The starting points for addressing funding risk (structural liquidity risk) are the business plans, which are reviewed annually by ProCredit Holding and the supervisory boards. The funding plans, derived from the business plans, serve as a basis for determining medium-term funding needs in regard to both equity and debt financing for the Group.

PCH supports the Group in meeting their funding needs not only through equity investments but also with subordinated debt.

The following table shows the exposures to counterparties and issuers:

in TRSD	**31.12.2020**	**in %**	**31.12.2019**	**in %**
Central bank balances	15,069,958	60.9	14,969,012	82.9
Loss allowances for central bank balances	*(9,149)*		*(8,519)*	
Mandatory reserve	*14,239,371*		*12,337,475*	
Of which covered by insurance	*(8,272,992)*		*(7,278,529)*	
Other balances with central banks	*9,112,728*		*9,918,585*	
Loans and advances to banks	4,479,951		3,081,595	
Loss allowances for loans and advances to banks	*(55)*	18.1	*(93)*	17.1
Derivative financial assets	-	-	22	0.0
Investment securities	5,201,438		-	
Loss allowance for investment securities	-	21.0	-	-
Total	**24,751,292**	**100.0**	**18,050,536**	**100.0**

E) Fair values of financial assets and liabilities

12/31/2020	**Category**	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Cash	FV	1,839,328	1,839,328	1,839,328	-	-
Central bank balances	AC	18,342,922	18,342,922	-	18,342,922	-
Loans and advances to banks	AC	7,232,117	7,232,117	-	7,232,117	-
Investment securities (FVOCI)	FVOCI	5,290,744	5,290,744	-	5,290,744	-
Other assets		514,911	514,911	-	514,911	-
Other assets (shares)	FVOCI	1,342	1,342	-	1,342	-
Other assets (other financial instruments)	AC	513,569	513,569	-	513,569	-
Loans and advances to customers	AC	110,074,952	113,031,895	-	-	113,031,895
Total financial assets		**143,294,974**	**146,251,917**	**1,839,328**	**31,380,694**	**113,031,895**
Financial liabilities						
Liabilities to banks	AC	1,118,838	1,118,838	-	-	1,118,838
Derivative financial liabilities	FV	2,881	2,881	-	2,881	-
Liabilities to customers	AC	72,162,931	72,089,345	-	-	72,089,345
Liabilities to international financial institutions	AC	29,379,608	27,560,665	-	-	27,560,665
Other liabilities	AC	708,580	708,580	-	708,580	-
Total financial liabilities		**103,372,838**	**101,480,309**	**-**	**711,461**	**100,768,848**

12/31/2019	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets						
Cash	FV	2,276,142	2,276,142	-	2,276,142	-
Central bank balances	AC	15,247,347	15,247,347	-	15,247,347	-
Loans and advances to banks	AC	9,042,867	9,042,867	-	9,042,867	-
Derivative financial assets	FV	22	22	-	22	-
Other assets		479,509	479,509	-	479,509	-
Other assets (shares)	FVOCI	1,268	1,268	-	1,268	-
Other assets (other financial instruments)	AC	478,241	478,241	-	478,241	-
Loans and advances to customers	AC	96,150,331	96,247,734	-	-	96,247,734
Total financial assets		**123,196,218**	**123,293,621**	**-**	**27,045,887**	**96,247,734**
Financial liabilities						
Liabilities to banks	AC	1,118,741	1,118,741	-	-	1,118,741
Derivative financial liabilities	FV	6	6	-	6	-
Liabilities to customers	AC	58,129,382	58,002,851	-	-	58,002,851
Liabilities to international financial institutions	AC	27,076,843	21,718,601	-	-	21,718,601
Total financial liabilities		**86,324,972**	**80,840,199**	**-**	**6**	**80,840,193**

ProCredit's fair value determination gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. For short-term financial instruments carried at amortised costs, the carrying value represents a reasonable estimate of fair value. The group has no fair value financial instruments with Level 3 inputs, with the exception of an insignificant amount of shares. Any reclassification between levels of the fair value hierarchy is carried out at the end of the reporting period.

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost. In general, financial instruments at fair value are measured on a recurring basis in the consolidated financial statements.

Fair value is defined as 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 between market participants at the measurement date.

F) Operational Risk

Operational risk is defined as the risk of possible negative effects on the financial result and the Group's capital due to omissions (inadvertent and intentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Group, and the occurrence of unpredictable external events. Operational risk includes: legal risk, conduct risk, model risk, fraud risk, risks arising from outsourcing activities as well as from the introduction of new products, while reputation risk is included in the risk of compliance.

To further expand the processes for managing operational risks, a new Operational Risk Policy was implemented in the Group in 2009 and Policy is updated regularly on annual level. The principles outlined in this document have been designed to effectively manage the operational risk exposure, and they are in compliance with the Basel III requirements for the "standard approach". Furthermore, Fraud Prevention Policy was implemented in 2011 which is also updated annually.

The overall framework to manage operational risks is as a complementary and balanced system with its key components Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, Scenario Analysis, New Risk Approvals (NRAs), Key Risk Indicators (KRI), Outsourcing Risk and the Risk Event Database. While of the Corporate Culture, the Governance Framework, and Policies and Procedures are installed to set the basic organizational requirements, Risk Assessments, New Risk Approvals (NRAs) and the Risk Event Database are the key instruments to execute the risk management process.

The overall objectives of the Group's approach to the management of operational risks are:

- to understand the drivers of the Group's operational risks;
- to be able to identify critical issues as early as possible; and
- to avoid losses caused by operational risks.

To deliver on these goals the following tools and processes have been implemented in detail, being part of the framework components as depicted above. They are presented as they are used within the process to manage operational risks. This process is subdivided into the phases of identification, evaluation, treatment, monitoring, documentation and communication, and follow-up. All corresponding details have been implemented in the Group by approving the Group Operational Risk Policy.

- **Identification**
  - Annual Operational and Fraud Risk Assessments
  - Scenario analysis
  - Detailed Process Reviews as appropriate
  - New Risk Approval (NRA) process
  - Outsourcing risk analysis
  - Risk identification and documentation in Risk Event Database (RED)
  - Ad hoc identification of potential risks

- **Evaluation / Quantification**
  - Agreed standards to quantify risks (impact * likelihood, Scenario Analysis, Stress testing, ICAAP)

- **Mitigation and Treatment**
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurance or other party

- **Monitoring & Control**
  - Process owners responsibility to monitor risks
  - Operational Risk Reports, ICAAP calculation and monitoring

- **Communication, Escalation, Documentation**
  - Escalation levels to management bodies, regular reporting, Operational risk committees
  - RED, Management summary documents for risk events

- **Issue Tracking / Follow up tables for material action plans**
  - Follow up tools used in the Group

The following categories of operational risk are looked at specifically:

- Business processes risk
  - defined as the framework for the functions and resources required to produce a certain product, service or performance
  - refers to the risk of a breakdown of processes because these are inadequately defined or inadequately linked with other processes
  - This also includes the risk that processes are not adequately documented or not controlled adequately.
- People Risks
  - the Group seeks to avoid key person dependencies and enforces a two-weeks consecutive leave policy
  - staff training has a very high priority in the Group and ensures continuous development of staff members' personal attitude and commitment and their professional skills
- IT Risks:
  - business continuity plans are in place
  - Information Security standards are in place
- Legal Risks:
  - suitable legal resources are employed to deal with legal matters (internal legal staff and / or external legal counsel)
  - the legal function is involved whenever required and appropriate (e.g. NRA process, all legal issues)
- Compliance and Regulatory Risk
  - The Group ensures the identification of new regulations or updates on the interpretation of regulations and covenants agreed with financing institutions in a timely manner.
  - Compliance risk includes reputational risk. This is the risk that an event or series of events may cause damage to a Group's reputation, thereby reducing its ability to conduct business.
- Fraud Risk
  - Group Fraud Prevention Policy has been implemented and corresponding risk assessments have been executed for these areas, based on the German standards.

Fraud team was established as group of professionals from relevant departments with main duties to receive and analyze critical information including whistle blowing, organize or supervise fraud investigation, assess and advise about fraud risk development on country level etc.

- Risk events of external origin such as a natural disaster that damages Group 's physical assets as well as electrical or telecommunications failures that disrupt business are analyzed by Operational Risk Officer in appropriate manner.

The following table shows the key operational risk figures for the past three years:

Key operational risk figures 2020 not-audited	
Gross loss, in EUR m	0.11
Current net loss, in EUR m	0.08
Number of loss events	26

Key operational risk figures 2019 not-audited	
Gross loss, in EUR m	0.25
Current net loss, in EUR m	0.02
Number of loss events	16

Key operational risk figures 2018 not-audited	
Gross loss, EUR million	0.30
Current net loss, EUR million	0.22
Number of loss events	21

4. NET INTEREST INCOME

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Interest income		
Interest income from central banks	26,015	55,559
Interest income from loans and advances to banks	17,735	49,657
Interest income from loans and advances to customers	3,822,696	3,556,012
Interest income from investment securities	89,307	117,290
Interest income from early closure	3,616	4,260
Other interest income (unwinding effect)	5,053	5,402
Total interest income	**3,964,422**	**3,788,180**
Interest expenses		
Interest expenses on liabilities to banks	(109,705)	(90,260)
Interest expenses on liabilities to customers	(587,403)	(523,148)
Interest expense for lease liability	(7,136)	(9,405)
Interest expenses on liabilities to IFI's	(229,680)	(328,450)
Interest expenses on subordinated debt	(116,208)	(204,583)
Total interest expenses	**(1,050,132)**	**(1,155,846)**
Net interest income	**2,914,290**	**2,632,334**

5. NET FEE AND COMMISSION INCOME

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Fee and commission income		
Payment services	533,002	509,420
Account maintenance fee	373,285	385,380
Letters of credit and guarantees	137,671	109,606
Debit/credit cards	307,923	246,826
Other fee and commission income	26,241	35,223
Total fee and commission income	**1,378,122**	**1,286,455**
Fee and commission expense		
Payment services	(121,009)	(111,138)
Fee expense processing centre	(66,068)	(64,821)
Debit/credit cards	(243,689)	(207,983)
Other fee and commission expenses	(177,026)	(174,131)
Total fee and commission expenses	**(607,792)**	**(558,073)**
Net fee and commission income	**770,330**	**728,382**

6. NET RESULT FROM FOREIGN EXCHANGE TRANSACTIONS

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Currency exchange	131,846	189,976
Net gain/ (losses) from FX revaluation	94,221	(52,259)
Total	**226,067**	**137,717**

7. NET RESULT FROM DERIVATIVE FINANCIAL INSTRUMENTS

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Losses from revaluation	(290,036)	(26,641)
Gains from revaluation	210,007	49,048
Total	**(80,029)**	**22,407**

8. NET OPERATING INCOME/(EXPENSE)

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Insurance indemnity	-	84
Income from previous years	1	264
Income from reimbursement of expenses	3,540	3,141
Reversal of other provisions	-	10,747
Income from litigation settlements	-	20,948
Income from sale of property, plant and equipment	4,920	5,758
Income from non-banking issues IC	34,697	104,844
Income from rents from investment properties	37,782	28,853
Income from sale/revaluation of repossessed properties	4,351	-
Others	52,601	2,652
Total other operating income	**137,892**	**177,292**
Loss from Impairment of property	(53,353)	(7,967)
Expenses from litigation settlements	(123,157)	(60,964)
Expenses for provisions on non-financial off-balance items	(4,422)	-
Others	(55,962)	(17,817)
Expenses to be reimbursed	(3,540)	(3,141)
Expenses for deposit insurance	(172,143)	(286,680)
Depreciation of properties	(9,588)	(9,191)
Impairment of repossessed property	(8,563)	(12,667)
Expenses from external debt recovery services	(1,831)	(3,248)
Total other operating expense	**(432,559)**	**(401,675)**
Net operating expense	**(294,667)**	**(224,383)**

9. LOSS ALLOWANCE

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Net change in loss allowance	(546,886)	(282,638)
Direct write-offs	(2,811)	(5,398)
Recovery of written-off loans	121,095	115,200
Total	**(428,602)**	**(172,836)**

10. PERSONNEL EXPENSES

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Salary expenses	(699,824)	(684,328)
Social security expenses	(40,240)	(38,207)
Post-employment expenses, defined benefit plans	-	(2,003)
Post-employment benefits plans, defined contribution plans	(199,890)	(191,985)
Other employee benefits	(21,535)	(19,334)
Total personnel expenses	**(961,489)**	**(935,857)**

11. OTHER ADMINISTRATIVE EXPENSES

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Operating lease expenses	(37,871)	(32,816)
Office supplies and other office utilities	(81,465)	(102,943)
IT expenses	(199,720)	(116,462)
Communication and royalties on software	(228,235)	(184,998)
Transport	(25,194)	(66,336)
Security services	(40,898)	(39,223)
Marketing, advertising and representation	(41,320)	(87,000)
Repairs and maintenance	(60,647)	(50,654)
Depreciation fixed and intangible assets incl. impairment	(232,280)	(271,486)
Legal, audit and consultancy fees	(255,838)	(242,900)
Non-profit tax	(96,940)	(87,562)
Donation	(1,886)	(595)
Recruitment and other personnel-related expenses	(45,702)	(64,353)
Other administrative expenses	(51,903)	(34,611)
Total	**(1,399,899)**	**(1,381,939)**

Auditor expense:

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Audit of financial statements	(7,949)	(8,321)
Tax advisory services	(1,975)	(2,207)
Other services	(1,239)	(746)
Auditor expense	**(11,163)**	**(11,274)**

12. INCOME TAX EXPENSES

	01/01/ - 12/31/2020	01/01/ - 12/31/2019
Deferred income tax expenses	(189)	-
Current income tax expense	(150,008)	(126,797)
Income from deferred taxes	7,628	7,664
Total income tax expenses	**(142,569)**	**(119,133)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the official rate as follows:

	01/01/ - 12/31/2020	**01/01/ - 12/31/2019**
Profit before tax	856,712	815,669
Tax calculated at a tax rate of 15% (2019: 15%)	(128,507)	(122,350)
Fines and penalties	(1,961)	(502)
Accounting depreciation above tax depreciation	(9,660)	(9,444)
Other non-deductible expenses	(5,194)	(398)
Income not subject to tax	29,313	25,979
Change in accounting policy - effect	(1,777)	(1,777)
Provisions not subject to tax	(24,783)	(10,641)
Income tax expense	**(142,569)**	**(119,133)**

	Effective tax rate 2020	**2020**	**Effective tax rate 2019**	**2019**
Profit before tax	-	856,712	-	815,669
Tax calculated at a tax rate	(15%)	(128,507)	(15%)	(122,350)
Non-deductible expenses	(5%)	(43,375)	(3%)	(22,762)
Income not subject to tax	3%	29,313	3%	25,979
Total	**(17%)**	**(142,569)**	**(15%)**	**(119,133)**

13. CASH AND CENTRAL BANK BALANCES

	12/31/2020	**12/31/2019**
Cash in hand	1,839,328	2,276,142
Mandatory reserve	14,239,371	12,337,475
Other balances at the Central Bank	4,112,700	2,918,391
Loss allowance for Central Bank	(9,149)	(8,519)
Total cash and central bank balances	**20,182,250**	**17,523,489**
Minimum reserve with Central bank which does not qualify as cash for the cash flow statement	(14,239,371)	(12,337,475)
Loans and advances to banks with a maturity up to 3 months	7,232,173	9,042,868
Investment securities with a maturity up to 3 months	766,936	-
Cash and cash equivalents for the cash flow statement (without loss allowance)	**13,951,137**	**14,237,401**

14. LOANS AND ADVANCES TO BANKS

	12/31/2020	**12/31/2019**
Loss allowance for loans to banks up to three months	(113)	(93)
Loans to banks up to three months	9,479,978	10,081,789
Loans and advances to banks	**9,479,865**	**10,081,696**

The following table shows movements on loan to banks:

In '000 RSD	**12/31/2020**	**12/31/2019**
Gross outstanding amount as of 1 January	**10,081,789**	**4,883,168**
New financial assets originated	-	5,999,795
Derecognition	(2,000,000)	(1,181,947)
Foreign exchange and other movements	1,398,076	380,680
Gross outstanding amount as of 31 December	**9,479,865**	**10,081,696**

15. INVESTMENT SECURITIES

	12/31/2020	**12/31/2019**
Fixed interest rate securities (FVOCI)	5,201,437	-
Accrued interest for fixed interest rate securities (FVOCI)	89,307	-
Investment securities Total	**5,290,744**	**-**

The following table shows movements on investment securities:

In '000 RSD	**12/31/2020**	**12/31/2019**
Gross outstanding amount as of 1 January	**-**	**3,604,594**
New financial assets originated	5,295,219	-
Derecognition	-	(3,519,648)
Foreign exchange and other movements	(4.475)	(84,946)
Gross outstanding amount as of 31 December	**5,290,744**	**-**

The amount of RSD 5,290,744 thousand as of 31 December 2020 refers to debt securities issued by the Ministry of Finance of the Republic of Serbia.

16. LOANS AND ADVANCES TO CUSTOMERS

31/12/2020	**Gross amount**	**Allowance for impairment**	**Net amount**	**Share of total portfolio**
Business loans	**105,614,303**	**(961,870)**	**104,652,433**	**95.07**
Wholesale and retail trade	20,054,631	(236,497)	19,818,134	18.00
Agriculture, forestry and fishing	32,573,172	(381,172)	32,192,000	29.25
Production	29,209,028	(193,089)	29,015,939	26.36
Transportation and storage	4,970,415	(44,261)	4,926,154	4.48
Other economic activities	18,807,057	(106,851)	18,700,206	16.99
Private loans	**5,523,667**	**(101,148)**	**5,422,519**	**4.93**
Housing	3,560,176	(52,217)	3,507,959	3.19
Investment loans and OVDs	1,864,129	(37,353)	1,826,776	1.66
Others	99,362	(11,578)	87,784	0.08
Total	**111,137,970**	**(1,063,018)**	**110,074,952**	**100**

31/12/2019	Gross amount	Allowance for impairment	Net amount	Share of total portfolio
Business loans	**92,163,042**	**(840,909)**	**91,322,133**	**94.98**
Wholesale and retail trade	16,035,024	(105,488)	15,929,536	16.57
Agriculture, forestry and fishing	31,071,500	(439,070)	30,632,430	31.86
Production	25,872,362	(153,649)	25,718,713	26.75
Transportation and storage	4,579,272	(34,593)	4,544,679	4.73
Other economic activities	14,604,884	(108,109)	14,496,775	15.08
Private loans	**5,014,290**	**(186,092)**	**4,828,198**	**5.02**
Housing	3,332,070	(64,071)	3,267,999	3.40
Investment loans and OVDs	1,578,550	(108,736)	1,469,814	1.53
Others	103,670	(13,285)	90,385	0.09
Total	**97,177,332**	**(1,027,001)**	**96,150,331**	**100**

17. INTANGIBLE ASSETS

Movements in intangible assets for the years 2019 and 2020 are presented in the table below:

	Software
Cost	
Balance, 1/1/2019	739,758
Additions	15,429
Balance, 12/31/2019	**755,187**
Accumulated depreciation	
Balance, 1/1/2019	471,487
Charge for the year	14,712
Balance, 12/31/2019	**486,199**
Net book value 12/31/2019	**268,988**
Cost	
Balance, 1/1/2020	755,187
Additions	32,373
Balance, 12/31/2020	**787,560**
Accumulated depreciation	
Balance, 1/1/2020	486,199
Charge for the year	15,510
Balance, 12/31/2020	**501,709**
Net book value 12/31/2020	**285,851**

The largest part of intangible assets in preparation refers to licenses for the transition to a new banking application, and the activation of which is expected during 2021.

The Group does not have intangible assets that are estimated to have an indefinite useful life.

As at 31 December 2020, the Group owns the assets at its disposal and has no encumbrances on the assets.

As at 31 December 2020, an impairment test for intangible assets was performed and there are no impairment indicators for other intangible assets.

18. PROPERTY, PLANT AND EQUIPMENT

Movements in property and equipment for 2019 and 2020 are presented in the table below:

	Building	Leasehold impro-vements	IT and other equipment	Furniture and fixtures	ROU land and buildings	Total
Cost						
Balance, 1/1/2019	1,286,759	114,470	1,573,211	65,065	289,788	3,329,293
Additions	5,713	-	46,694	2,698	-	55,105
Disposals	(127,543)	(5,163)	(38,517)	(3,248)	-	(174,471)
Balance, 12/31/2019	**1,164,929**	**109,307**	**1,581,388**	**64,515**	**289,788**	**3,209,927**
Accumulated depreciation						
Balance, 1/1/2019	265,835	60,630	1,108,857	46,857	-	1,482,179
Disposals	-	(5,163)	(30,168)	(2,709)	-	(38,040)
Charge for the year	28,937	8,270	151,438	3,033	43,732	235,410
Balance, 12/31/2019	**294,772**	**63,737**	**1,230,127**	**47,181**	**43,732**	**1,679,549**
Net book value at 12/31/2019	**870,157**	**45,570**	**351,261**	**17,334**	**246,056**	**1,530,378**
Cost						
Balance, 1/1/2020	1,164,929	109,307	1,581,388	64,515	289,788	3,209,927
Additions	-	-	3,181	1,561	5,552	10,294
Disposals	(33,469)	(6,262)	(42,823)	(4,761)	(45,542)	(132,857)
Balance, 12/31/2020	**1,131,460**	**103,045**	**1,541,746**	**61,315**	**249,798**	**3,087,364**
Accumulated depreciation						
Balance, 1/1/2020	294,772	63,737	1,230,127	47,181	43,732	1,679,549
Disposals	-	(2,389)	(40,383)	(4,416)	(12,334)	(59,522)
Charge for the year	28,712	7,686	138,607	3,112	38,653	216,770
Balance, 12/31/2020	**323,484**	**69,034**	**1,328,351**	**45,877**	**70,051**	**1,836,797**
Net book value at 12/31/2020	**807,976**	**34,011**	**213,395**	**15,438**	**179,747**	**1,250,567**

19. DEFERRED TAX

Deferred tax assets are calculated on all temporary differences under the liability method using an effective tax rate of 15% (2019: 15%).

Deferred tax assets are attributable to the following items:

	12/31/2020	12/31/2019
Other temporary differences	(1,812)	(3,589)
Accelerated tax depreciation	41,945	36,093
Other provision	768	958
Temporary differences, equity reserve	(107)	(96)
As at 31 December	**40,794**	**33,366**

Movements in the deferred tax assets account are as follows:

	12/31/2020	12/31/2019
As of 1 January	**33,366**	**18,565**
Deferred tax on other assets	7,439	7,664
Fair value measurement of available for sale securities	(11)	7,137
As at 31 December	**40,794**	**33,366**

The deferred tax charge and income in the consolidated statement of profit or loss and other comprehensive income comprises the following temporary differences:

	12/31/2020	12/31/2019
Accelerated tax depreciation	5,852	5,586
Other provisions	(189)	300
Other temporary differences	1,777	1,778
Deferred tax income /(charges)	**7,440**	**7,664**

20. OTHER ASSETS

	12/31/2020	12/31/2019
Non-financial instruments		
Repossessed properties	109,968	120,868
Investment properties	380,813	356,931
Inventory and assets to be sold	48,947	107,756
Shares	1,342	1,268
Other claims IC	9,780	1,630
Loss allowance for account receivables	(44,583)	(12,529)
Financial instruments		
Claims to customers	83,506	73,715
Claims to tax authorities	327	76
Deferred advance payments	122,891	106,559
Security deposits	2,681	1,876
Others	348,746	308,543
Other assets	**1,064,418**	**1,066,693**

All repossessed assets relate to Serbia.

21. LIABILITIES TO BANKS

	12/31/2020	12/31/2019
Liabilities to intercompany banks	9,200,651	6,864,186
Accrued interest on liabilities to intercompany banks	43,726	53,073
Accrued interest on liabilities to banks	1,083	866
Liabilities to banks	1,117,755	1,117,875
Total	**10,363,215**	**8,036,000**

	12/31/2020	12/31/2019
Up to three months	5,969,021	2,220,879
Up to one year	4,350,468	4,586,120
More than one year	-	1,175,928
Without maturity	43,726	53,073
Liabilities to banks	**10,363,215**	**8,036,000**

22. LIABILITIES TO CUSTOMERS

The category “Legal entities” includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

	12/31/2020	12/31/2019
Current accounts		
– private individuals	5,769,061	3,663,235
– legal entities	27,775,812	19,300,989
Savings accounts		
– private individuals	337,786	727,018
Term deposit accounts		
– private individuals	26,603,033	24,644,313
– legal entities	11,191,434	9,338,822
Other liabilities	16,325,626	14,870,283
Subtotal	**88,002,752**	**72,544,660**
Accrued interest on deposits	135,160	141,750
Total	**88,137,911**	**72,686,410**

23. LIABILITIES TO INTERNATIONAL FINANCIAL INSTITUTIONS

	12/31/2020	12/31/2019
Liabilities to IFI's	29,436,606	27,068,051
Accrued interests	39,836	57,397
Deferred fees	(96,834)	(48,605)
Total	**29,379,608**	**27,076,843**

Following table shows liabilities for principal to IFI's and to other borrowing funds.

	Up to 1 month (1 to 30 days)	1 - 3 months (31 to 90 days)	3 - 12 months (91 to 365 days)	1 - 5 years	Over 5 years	Without maturity	Total 31.12.2020	Total 31.12.2019
Liabilities to IFIs of which with variable interest rate	835,815	172,192	2,746,569	12,332,831	2,266,313	(60,245)	18,293,475	15,783,026
Liabilities to IFIs of which with fixed interest rate	-	1,007,830	3,718,127	4,276,937	2,119,828	(36,589)	11,086,133	11,293,817
TOTAL	**835,815**	**1,180,022**	**6,464,696**	**16,609,768**	**4,386,141**	**(96,834)**	**29,379,608**	**27,076,843**

The Group is obliged to comply with a number of debt covenants set in the borrowing contracts, such as risk weighted capital adequacy ratio, single client exposure ratio, aggregate large exposure ratio, group exposure ratio, related party exposure ratio, interest rate risk ratio, open credit exposure ratio, open foreign currency positions in any currency and in aggregate, etc.

As of 31 December 2020 the Group was not in breach of any debt covenants in respect of its borrowed funds.

24. SUBORDINATED DEBT

Counterparty	Notional amount	Currency	Remaining amount as at 31.12.2020	Maturity	2020 (TRSD)	2019 (TRSD)
ProCredit Holding	6,000,000	EUR	6,000,000	18.10.2023.	705,481	705,557
ProCredit Holding	10,000,000	EUR	10,000,000	01.06.2025.	1,175,802	1,175,928
Subtotal					**1,881,283**	**1,881,485**
Accrued interest					14,208	14,500
Total					**1,895,491**	**1,895,985**

Subordinated liabilities are fully paid-up and their agreed maturity is at least five years from the date of payment. There is no possibility to repay early, except in the case of conversion of these liabilities into bank shares other than cumulative preferential shares. They are available for the coverage of losses only in the event of bankruptcy or liquidation of the Group. In mentioned events, these liabilities may be settled only after the settlement of all other non-subordinated obligations, but before the Group shareholders and owners of hybrid instruments issued by the PCH.

Following table shows maturity of subordinated debt:

	Up to 1 month (1 to 30 days)	1 - 5 years	Over 5 years	Total 31.12.2020	Total 31.12.2019
Subordinated debt (subordinated capital)	14,208	1,881,283		1,895,491	1,895,985

Following table shows cash flows from financial activities related to changes in subordinated debts during 2020.

TRSD	Subordinated debts
Net liabilities 12/31/2019	**1,895,985**
Cash flow	-
Net currency exchange difference	(192)
Other non-cash changes	(302)
Net liabilities 12/31/2020	**1,895,491**

25. CURRENT TAX LIABILITIES

Current tax liabilities in amount of RSD 33,349 (2019: RSD 0) is liability for income tax.

26. PROVISIONS

	12/31/2020	12/31/2019
Post-employment benefits	5,126	6,387
Imminent losses from off-balance sheet items	4,977	568
Imminent losses from pending transactions	174,871	85,291
Untaken vacation	24,653	28,156
Financial off-balance sheet items	20,346	17,305
Unbilled services	6,926	14,689
Other provisions	22,350	19,464
Total provisions	**259,249**	**171,860**

Movement in provisions is as follows:

	12/31/2020	12/31/2019
Balance at 1 January	**171,860**	**99,648**
Exchange rate adjustments	(14)	(26)
Additions	149,340	126,076
Used	(43,370)	(43,091)
Releases	(18,567)	(10,747)
Balance at 31 December	**259,249**	**171,860**

27. OTHER LIABILITIES

	12/31/2020	12/31/2019
Deferred income	266,359	141,733
Liabilities for goods and services	249,243	260,980
Non-income tax liabilities	3,972	2,866
Internal accounts	-	15,238
Lease liabilities	185,026	248,897
Others	5,853	1,163
Total other liabilities	**710,453**	**670,877**

28. EQUITY

	12/31/2020	12/31/2019
Subscribed capital	3,663,012	3,663,012
Capital reserve	2,776,745	2,776,745
Retained earnings	8,772,372	8,058,229
Revaluation reserve	28,787	542
Legal reserve	1,643,864	1,643,864
Total equity	**16,884,780**	**16,142,392**

The ownership structure as at 31 December 2020 and 2019 was as follows:

	Number of shares		Share in %	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
ProCredit Holding	3,663,012	3,663,012	100	100
	3,663,012	**3,663,012**	**100**	**100**

The Group is controlled by ProCredit Holding, Germany, which owns 100% of the shares from June 2012.The ultimate parent of the Group is ProCredit Holding.

The total number of shares at the end of the year was 3,663,012 (2019: 3,663,012) with nominal value of 1,000 RSD per share (2019: 1,000 RSD per share). In 2019 there was no issue of new shares.

In 2020 the Group did not distributed dividends to ProCredit Holding (In 2019 the Group did not distributed dividends to ProCredit Holding).

29. CONTINGENT LIABILITIES AND COMMITMENTS

The following table indicates the contractual amounts of the Group's off-balance financial instruments that commit it to extend credit to customers:

	12/31/2020	12/31/2019
Payment guarantees	4,077,292	3,568,267
Letters of credit	12,670	18,484
Credit related commitments	10,897,673	9,357,960
Performance guarantees	3,561,322	3,083,414
Balance as at 31 December	**18,548,957**	**16,028,125**

30. LEASING

The following table shows the expected rent income from investment properties in 2020:

	12/31/2020
No later than 1 year	42,000
Later than 1 year and no later than 5 years	45,500
Later than 5 years	-
Total	**87,500**

The following table shows the expected rent income from investment properties in 2019:

	12/31/2019
No later than 1 year	38,000
Later than 1 year and no later than 5 years	50,641
Later than 5 years	-
Total	**88,641**

31. RELATED PARTY TRANSACTIONS

The Group enters into transactions with its shareholders and other ProCredit institutions in Central and Eastern Europe.

A number of banking transactions are entered into with related parties. These include loans, deposits and foreign currency transactions. There were related-party transactions with the ultimate parent company ProCredit Holding, in addition to the payment of dividends on ordinary shares.

TRSD	Contractual interest rate	Immediate parent company	Other related parties	12/31/2020	12/31/2019
Loans and advances to banks		**-**	**2,247,749**	**2,247,749**	**1,038,829**
ProCredit Germany		**-**	**2,247,749**	**2,247,749**	**1,038,829**
Deposits	-0.55%		940,642	940,642	-
Nostro account	-0.55% - 0,05%		1,307,164	1,307,164	1,038,829
Accrued interest			(57)	(57)	-
Other assets		**65**	**9,715**	**9,780**	**1,630**
ProCredit Holding		65		65	-
Germany Academy			9,715	9,715	-
Quipu Shpk Kosovo			-	-	121
ProCredit Bank Bulgaria			-	-	1,329
PCB Bosnia					-
PCB Albania					-
PCB Macedonia					-
PCB Romania					-
Procredit Georgia			-	-	180
Liabilities to banks		**-**	**9,244,377**	**9,244,377**	**6,917,259**
- Deposits					
ProCredit Bank Bosnia				-	14,405
ProCredit Bank Germany	0,472 - 1,422%		7,436,948	7,436,948	6,849,781
ProCredit Bank Bulgaria			1,763,703	1,763,703	
- Other					
PC Finance II					
ProCredit Bank Germany			43,050	43,050	53,073
ProCredit Bank Bulgaria			676	676	-
Liabilities to customers		**15,974,981**	**-**	**15,974,981**	**14,557,027**
ProCredit Holding				-	
- Deposit	1.2014% - 1.4816%	15,873,327		15,873,327	14,463,914
- Other		101,654		101,654	93,113

TRSD	Contractual interest rate	Immediate parent company	Other related parties	12/31/2020	12/31/2019
Subordinated debt		**1,895,491**	**-**	**1,895,491**	**1,895,985**
ProCredit Holding	6M Euribor + 6.25% - 6.30%	1,895,491		1,895,491	1,895,985
Other liabilities		**-**	**26,726**	**26,726**	**34,066**
ProCredit Holding					
ProCredit Bank Kosovo			397	397	317
ProCredit Bank Germany			2,504	2,504	3,965
Quipu GMBH			23,825	23,825	29,716
Germany Academy					
Macedonian Academy					68

TRSD	Immediate parent company	Other related parties	12/31/2020	12/31/2019
Off balance items	**1,175,802**	**-**	**1,175,802**	**1,175,928**
Undrawn credit line from ProCredit Holding	1,175,802		1,175,802	1,175,928
Guarantees issued to ProCredit Kosovo				
Guarantees issued to ProCredit Germany				

The volumes of related party transactions and related expenses for the year are as follows:

TRSD	Contractual interest rate	Immediate parent company	Other related parties	12/31/2020	12/31/2019
Interest income			**(9,054)**	**(9,054)**	**(3,449)**
ProCredit Bank Germany			(9,054)	(9,054)	(3,920)
PC Finance II					471
Gains form derivative group companies			**7,463**	**7,463**	**45,703**
ProCredit Bank Germany			7,463	7,463	45,703
Interest expenses		**310,266**	**85,243**	**395,509**	**415,467**
ProCredit Holding		310,266		310,266	340,030
ProCredit Bank Germany			80,731	80,731	75,355
ProCredit bank Bulgaria			4,512	4,512	
PC Finance II					82
Fee and commission expense		**63,562**	**138,151**	**201,713**	**200,407**
ProCredit Holding		63,562		63,562	61,373
ProCredit Bank Germany			72,083	72,083	74,214
Quipu GMBH			60,753	60,753	58,365
Quipu Kosovo			5,315	5,315	6,455

TRSD	Contractual interest rate	Immediate parent company	Other related parties	12/31/2020	12/31/2019
Other operating Income		**896**	**33,800**	**34,696**	**104,845**
ProCredit Holding		896		896	2,835
ProCredit Bank Albania			969	969	6,775
ProCredit Bank Bosnia			2,629	2,629	5,792
ProCredit bank Bulgaria			3,368	3,368	17,461
ProCredit Bank Georgia			1,439	1,439	7,972
ProCredit Bank Macedonia			4,927	4,927	10,528
ProCredit Bank Moldavia			60	60	3,290
ProCredit Bank Romania			5,117	5,117	17,902
ProCredit Bank Ukraine			5,267	5,267	18,665
ProCredit Bank Kosovo			10,024	10,024	13,625
Other administrative expenses		**145,105**	**231,141**	**376,246**	**282,022**
ProCredit Academy Germany			31,421	31,421	41,353
ProCredit bank Kosovo					
ProCredit Holding		145,105		145,105	124,124
Quipu GMBH			199,720	199,720	116,273
Macedonian Academy					272

Paid salaries and other short-term employee benefits to the members of Executive Board as of 31 December 2020 amounted RSD 32,949 thousand (2019: RSD 31,239 thousand).

Paid salaries and other short-term employee benefits to the members of Management Board as of 31 December 2020 amounted RSD 2,680 thousand (2019: RSD 2,755 thousand).

32. EVENTS AFTER THE DATE OF CONSOLIDATED FINANCIAL STATEMENTS

For the period up to and including, no events have occurred which have any substantial impact on the consolidated financial statements for the year ending 31 December 2020.

Ivan Smiljković
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Date: 2021.05.25 08:19:56 +02'00'

Ivan Smiljković
Member of the Executive Board

Igor Anić
200005709

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Date: 2021.05.25 08:24:11 +02'00'

Igor Anić
President of the Executive Board