TRANSLATION

EUROBANK A.D.

ANNUAL BUSINESS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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1. GENERAL

Eurobank a.d. (hereinafter ''The Bank") has been established by the merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006 and today represents one of the leading foreign investors and financial institutions in the country. Following the more than decade of successful business in Serbia Eurobank offers a wide selection of standard and innovative banking products and services.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The Bank operates in accordance with the Law on Banks based on principles of liquidity, safety and profitability.

Eurobank strives to be the leading choice bank for the clients in Serbia, both for the individuals and legal entities, operating with a sense of responsibility towards employees, clients, stakeholders and the community.

2. ORGANIZATIONAL STRUCTURE

Activities of the Bank employees are managed by the Executive Board of the Bank, represented by the President of the Executive Board. President and members of the Executive Board are elected by the Board of Directors. The Executive Board has 5 members.

The Bank is organized into Sectors, Divisions and Departments which cover basic business functions. As at 31 December 2020, the Bank had the following organizational parts:

- Cabinet of the President of the Executive Board,
- Retail Banking Sector,
- Troubled Assets Sector,
- Operations and Organization Sector,
- Corporate Banking Division,
- Treasury Division,
- Finance and Control Division,
- IT Division,
- Risk Management Division,
- Human Resources Division,
- Legal Division,
- Internal Audit Division,
- Marketing and Corporate Communication Division,
- Compliance Department, and
- AML Department.

Bank's Network

As at 31 December 2020, the Bank had the Head Office, 80 retail branches and 5 business centres through which it conducts its operations. As at 31 December 2020, the Bank did not have any branches or offices abroad.

Human resources

As at 31 December 2020 the Bank had 1,450 employees (31 December 2019: 1,483 employees). The number of employees includes the active staff, the employees on leave as well as direct sales agents.

Qualification structure of the employees of the Bank as at 31 December 2020 is presented below:

	Total	%
University degree	630	43.45%
College degree	322	22.21%
High-school degree	487	33.58%
Skilled workers	8	0.55%
Low-skilled workers	3	0.21%
Total	**1,450**	**100%**

3. FINANCIAL REVIEW

Year 2020 was dominated by the pandemics caused by the Covid 19 virus, with implications across all segments of life. Economic output was officially 1.0% lower in 2020 vs. 2019, the mildest drop in the region and one of the best in all of Europe. The drop came as expected with the Covid pandemics affecting severely most business segments, especially trade, transport and tourism. Services segment, which takes up more than half of Serbian economy, contributed negatively to the final result, with a fall of 1.5%. On the expenditure side, private consumption declined, while public spending made up for part of that fall with hefty state interventions in an effort to dampen the fall.

Industrial output was 0.4% higher for the year, with mining and energy production contributing for the rise, while the processing industry was flat. Agriculture was higher in total output by 4.4% while construction fell some 4.3% (on a huge base from 2019), considered a very solid result.

CPI was expectedly low, at 1.3% by year end 2020 and is expected to return to around 2% in the course of 2021, as economy begins to recover. In 2020 the NBS lowered the KPR by an aggregate 1.25%, to a new historic low of 1.0%, in an effort to alleviate the effects of the crisis. The low rate and the state supported lending scheme are helping to increase overall lending levels.

Foreign trade was severely hit in Q2, and began to recover only in September. Overall for the year exports were down 2.8% while imports fell 3.8%, for a trade shortfall of ca. 5.9bn EUR. The exports to imports ratio is now at 74.3%. FDIs were not as hardly hit as expected, and with a December spur they totalled 2.9bn EUR, down from 3.5bn the year before. Current account deficit came in at 2.0bn EUR or 4.2% of GDP, while remittances are some 14% lower, at 2.6bn EUR.

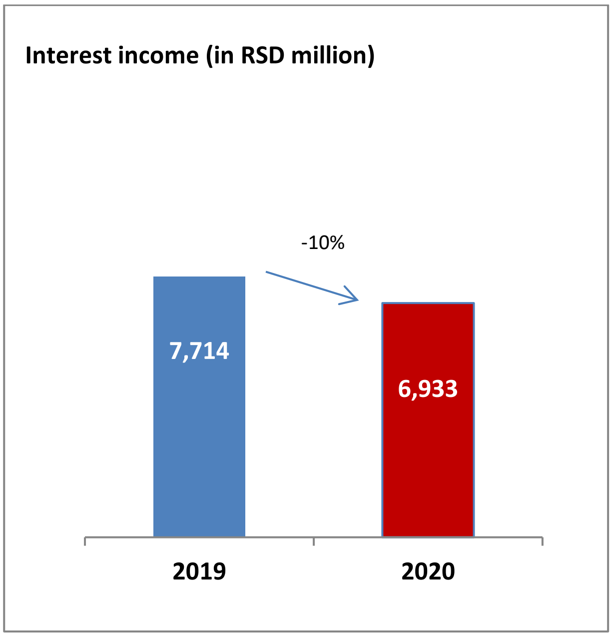
Following new borrowings aimed to fill the gaps created by the Covid recovery plan, the state budget showed a gap of 8.0% for the full year 2020. As a result-public debt to GDP rose from 52.0% to 56.8% and is expected to hover around this level in the next two years. The Covid relief scheme was in total worth 12.6% of GDP, while direct giveaways from the budget amounted to 6.6% (the rest is in guarantee support schemes and other indirect measures).

Retail trade was surprisingly resilient, as it was up in real terms by 4.3%, as consumers turned to online orders and deliveries, which are likely to become a trend even after the pandemic ends. Unemployment expectedly rose, but just mildly and below expectations, to 9.9% at the end of the year, just 2pp higher from an all-time low in Q1 of 2020. Average salaries are higher by 7.7% in real terms (to some 530 EUR net), pushed higher by the public sector wages, which were unfrozen the year before.

Altogether, GDP is expected to recover by a range of 4.0% to 6.0% in 2021, depending on how fast the Covid epidemic subsides.

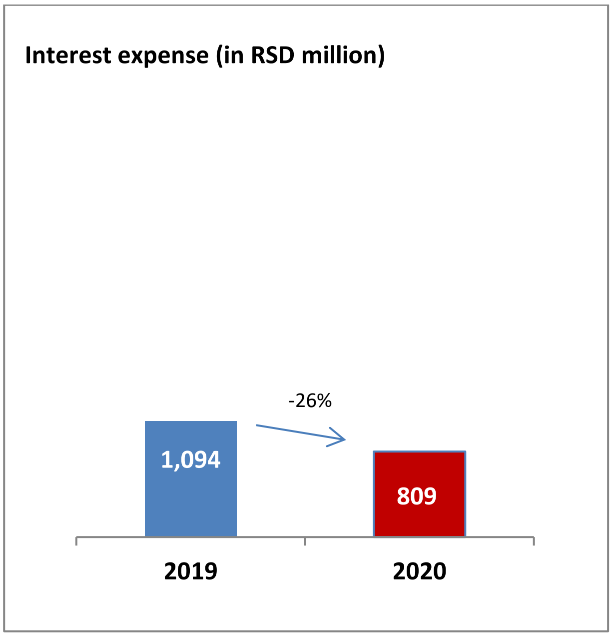
Operating revenues

Interest income



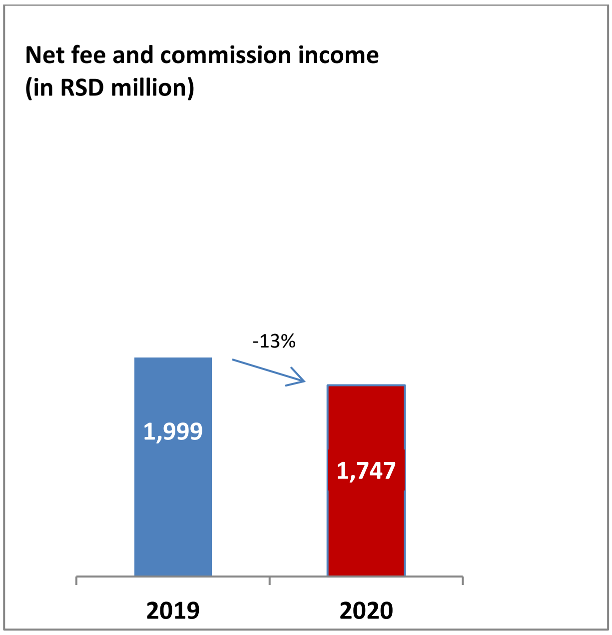
Although the credit portfolio of the Bank grew in 2020 vs. 2019 the interest income decreased by RSD 781 mil (10%). The drop in interest income was caused by COVID pandemic and State response to it: KPR cuts, moratoria, not calculation of penalty income during state of emergency and for loans disbursed through guarantee scheme with low interest rates.

Interest expense



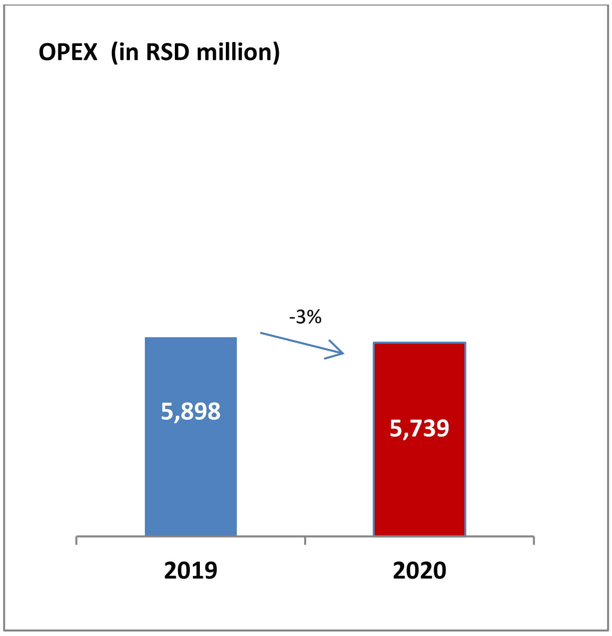
Interest expense decreased in 2020 as a result of several implemented initiatives, as well as the general trend of declining interest rates.

Net Fee and Commission Income



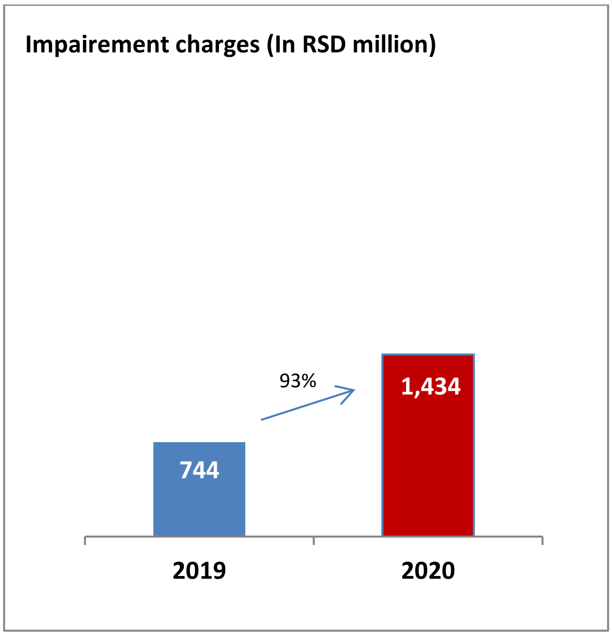
Net Fees and Commissions Income in the 2020 went down by 13% year on year.
The drop is mostly a consequence of COVID pandemic: lockdown and also absence of transactions and activities.

OPEX



Operational expenses declined in 2020 by 3% year on year after firm control of costs with goal that all additional COVID driven costs should be covered by other savings.

Impairment charges



In 2020 the Bank recorded a significant rise in provision expense, booking provisions worth RSD 690 mil higher than in 2019. (93%). Despite the facts that ECL calculation methodology remained mainly unchanged compared to 31 December 2019 and that significant inflows in default have not been observed due to moratoria and other regulatory measures, the Bank prudently revised the assumptions and estimates applied in ECL calculation in order to adequately reflect the negative impact of the extraordinary circumstances of the Covid-19 pandemic.

Net Result

As of 31 December 2020, the Bank recorded net gains of RSD 725 million.

Capital adequacy

As at 31 December 2020, the capital adequacy (CAD) ratio of the Bank was 24.44% as compared to the prescribed ratio of 8% (as at 31 December 2019: 26.20%). It is necessary to note that retained earnings of the Bank amounting to RSD 12.5 billion were not included in the calculation of CAD, as they have not been distributed yet. Including the retained earnings into CAD would increase the stated CAD ratio by app. 8.5 percentage points.

4. ENVIRONMENTAL PROTECTION

Even under the new circumstances caused by coronavirus pandemic, environmental protection remains a strategic objective for Eurobank. As we remain focused on the formation of long-term relationships with clients, employees and local community, we are also continuously aspiring towards improvement and implementation of environmental programmes and initiatives:

Waste Management

Adequate waste management represents one of the main subjects of environmental protection. Bank`s daily activities are conducted by adhering to valid regulation and internal procedures in this field, with the goal of solid waste pollution reduction. In 2020, the Bank continued its program for recycling waste paper, plastics and used-up printer cartridges and toners at all locations in Serbia, as well as periodical centralized activities regarding handover of electrical and electronic waste material, fluorescent tubes and non-hazardous waste (wood, metal, plastics, textile), with final aim of appropriate treatment procedures.

Responsible Financing – Social and Environmental Risks Management System

The Bank has integrated the Social and Environmental Risks Management System into its loan approval process pursuant to international standards and best practices. This System is one of the core elements of good cooperation established with the European Bank for Reconstruction and Development.

Energy and Climate Changes

With respect to the importance of reduction in greenhouse gas emission, the Bank continues to monitor the consumption of electric energy and all pertaining emissions.

Digital transformation

We are continuously reviewing our processes in order to improve them and to transfer paper documents into electronic formats. This practice reduces the consumption of paper and tonners and contributes to the abatement of waste impact on the environment.

„The Green Procurement" Policy

Eurobank aims to inspire and encourage its clients and suppliers to jointly contribute to environmental and social responsibility to its clients and suppliers. Within this context, the Bank continues to develop and apply environmental protection criteria when assessing its suppliers and the products and services they offer.

5. PLANNED FUTURE DEVELOPMENT

The main objectives of the Bank's longer-term strategy are the following:

- Preserving the quality of the loan portfolio and limiting NPL growth induced by COVID-19 crisis.
- Maintaining the budgeted profitability ratios through cautious enlargement of the loan book, firm control of operational expenses and prudent cost of risk policies.
- Preserving a strong liquidity position, including being fully funded from own liquidity sources and IFIs (international financial institutions).
- Maintaining a strong capital position through internal sources of capital generation and optimization.

Main targets for the next 3 years

- Net loans to growth rate to aim at 7 to 8% p.a.
- Deposit base to expand by ca. 7 to 9% p.a.
- Profitability to aim a Return on Equity of 5%
- Cost to Income to target below 60% by 2023
- Keeping of NPL rate at below 7%.

6. FINANCIAL RISK MANAGEMENT GOALS AND PRINCIPLES

Basics of risk management process

Risk taking is an integral part of banking business. To ensure adequate management of risks, the Bank defined policies, models, methodologies and processes, aiming to identify all risks at an early stage, assess their impact on the realization of goals and establish a framework that enables effective control and management of risks. Risk management framework is established in compliance with the Law on Banks, the regulations and requirements of the National Bank of Serbia, Basel standards, International Financial Reporting Standards (IFRS/IAS), policies and guidelines of the parent bank and best banking practice. Risk management system is established by the Bank`s Board of Directors and monitored, besides the Board of Directors alone, by the following Bank's bodies: Audit Committee, Risk Committee, Executive Board, Operational Risk Committee, Assets and Liabilities Committee and Troubled Assets Committee. Functioning of the risk management system is regulated by the adopted internal policies, guidelines and procedures for each materially important risk type and independently assessed by Internal Audit function.

Risk management system has been designed in accordance to the size and organizational structure, nature, scope and complexity of Bank operations i.e. its risk profile, and with the aim to support the vision of the organization as the leading, universal and client-oriented Bank which ensures:

- implementation of high-risk management standards;
- compliance with regulatory requirements;
- strong capital position;
- stable funding sources and strong liquidity.

With regards to the organizational structure of the Bank and basic principles of risk management, the risk management system is established and continuously improved in order to ensure the clearly defined competences and responsibilities, transparent and consistent lines of communication and exchange of information, and separation of risk-taking activities from risk management activities.

Strategic framework for risk management is determined by Risk Management Strategy, Capital Management Strategy and Risk Appetite Policy. Principles and rules are further regulated by individual risk management policies, and operationalized and implemented through guidelines, procedures and methodologies.

Main risk management goals of the Bank are to secure in long term the adequate capital level of the Bank in order to cover all materially significant risks that Bank is or may be exposed to in its operations and to increase economic value for shareholders, to optimize capital utilization through system of risk limits, allocation of total internal capital requirements and strategic planning. Moreover, risk management system has been conceived to ensure that all risks are identified, measured, controlled in a timely manner and reported to appropriate decision-making bodies.

In the course of 2020, the Bank continued to enhance risk management system by improvement of internal documents, methods and processes in a light of harmonization with guidelines and policies of the Parent Bank, as well as with the amendments to the domestic and international (EU) regulations and recommendations of the Internal and External Audit.

In response to Covid-19 Pandemic, the following regulatory measures, that have an impact on Bank`s portfolio, have been introduced:

- State Guarantee Scheme aimed at small and medium enterprises in performing status, for liquidity and working capital loans;
- Temporary measures for preserving financial system stability and enabling i.e. moratoriums on existing loan obligations;
- Various other NBS relief measures related to LTV for mortgage loans, maximum tenor of consumer/cash loans, credit file completeness relaxation for loans up to RSD 90 thousand etc.

Existing Expected Credit Loss (ECL) models were subject of the regular review. New models have been introduced as well (Prepayment Rates for all segments, Credit Conversion Factor for credit cards). In the context of the economic disruption caused by Covid-19, special attention was paid to include the expected impact of the crisis in ECL parameter estimates. This included:

- Refinement of macroeconomic models for PD forecasting,
- Case-by-case analysis and override of Corporate credit ratings, wherever negative impact of the crisis is expected on the borrower,
- Updating of behavioural ratings for Retail based on behavioural information pre and post the moratoria,
- Reclassification to stage 2 where based on the industry in which a Corporate borrower is operating a significant increase in credit risk can be considered to have occurred with respect to that borrower,
- Override of expected prepayment rate to 0% for all exposures classified to stage 2.

In accordance with NBS requirements, during 2020 the Bank has started activities related to the implementation of the new definition of default, based on NBS guidelines. The project is in progress.

Additionally, a project related to FX loans to legal entities limitation in accordance with the NBS requirements (Decision on Capital adequacy and Decision on risk management by banks) is also in progress. The project is related to setting up of a full risk management framework for FX induced credit risk including limits for total portfolio and new disbursements.

Risk management framework

Risk management processes include Bank’s boards and committees, competent units responsible for identification, measurement and assessment, monitoring, limiting and reporting, and control, as well as risk taking units.

Risk management process comprises several phases which the Bank has defined as follows:

- risk identification;
- risk measurement and assessment;
- limitation and mitigation of risk;
- risk monitoring and risk control; and
- risk reporting.

The process is entirely based on the documented policies, guidelines and procedures that are regularly reviewed in terms of their comprehensiveness, accuracy and quality.

Major financial risks the Bank is exposed to in its operations are the following: credit risk, liquidity risk, market risk and operational risk.

The Risk Management Division operates independently from other business units. The Division comprises of the following departments:

- Credit Risk Department;
- Credit Control Department;
- Market Risk Department;
- Operational Risk Department;
- Collateral Management Department;
- Risk Modeling Department;
- Integrated Risk Management Department; and
- Data Management Unit.

During Q4 2020, Risk Management Division has been working on important organizational improvements, establishing two new departments. Predictive Analytics Department is planned to replace the existing Risk Modeling Department and Data Management Unit. Model Validation Department will be introduced as well. The changes are to be finalized in Q1 2021.

7. MAJOR FINANCIAL RISK MANAGEMENT POLICIES

Liquidity risk

Liquidity risk is the negative effects risk on financial result and capital due to inability of the Bank to settle its due obligations. Liquidity risk occurs due to:

- withdrawal of the existing funding sources as well as due to inability to attract new sources (funding liquidity risk); or
- difficulties in conversion of assets into liquid assets due to market disruptions (market liquidity risk).

In order to ensure cautious liquidity risk management, within its Market, Counterparty and Liquidity Risk Management Policy, and in accordance with the Group liquidity risk management guidelines, the Bank defined liquidity risk management specifying the manner of liquidity measurement, monitoring, and management. The Policy includes projections of cash flows, minimal liquidity levels, functions involved in liquidity risk management, liquidity risk monitoring and review functions, limit monitoring roles and responsibilities, escalation procedure for limit breaches, etc. In addition, in order to ensure an efficient process of managing liquidity risk and stable functioning of the Bank in circumstances requiring increased monitoring and liquidity management, within the Methodology – Contingency Business Plan, the Bank defined:

- procedures for identifying possible liquidity problems;
- list of indicators for early detection of possible problems related to the Bank`s liquidity;
- the process of reporting, communication, the way of accessing available or potential sources of liquidity;
- persons and relevant Bank bodies responsible for identifying problems related to the Bank`s liquidity; and
- persons and relevant Bank bodies responsible for making decisions in such situations.

The goal of Bank's liquidity risk management is to ensure:

- that necessary liquidity management policies and procedures are established and implemented;
- sufficient liquid assets and adequate liquidity enabling a cautious carrying out of operations and settlement of Bank's due obligations;
- high quality of liquid assets enabling the Bank to successfully face a funding crisis;
- regular monitoring and control of the interbank financing capability, stability and diversity of the deposit base, total liquidity status of the Bank and external market environment;
- regular daily and continuous monitoring of the liquidity position through banking operations;
- assessment of Bank liquidity adequacy in crisis through stress testing; and
- fulfilment of regulatory requirements.

Also, the Assets and Liabilities Management Committee (ALCO) regularly monitors and analyzes the Bank's operational liquidity, while the Treasury Division performs operational liquidity management at the daily basis.

Referring to the Core Principles issued by the Basel Committee on Bank Supervision implemented from June 2017 regarding the reliable liquidity risk management and control, as well as to the NBS regulations, the Bank includes Liquidity coverage ratio (LCR) in its analyses.

In the event of an increased liquidity risk, the Bank shall use risk mitigation methods which include (but are not limited to):

- undertaking measures to change the balance sheet assets structure in terms of repayment deadline;
- utilization of the available lines with parent bank and other contractual parties; and
- focusing on placement of funds into highly liquid assets.

Credit risk

Credit risk is the risk of financial loss due to an obligor's failure to fulfil their obligations to the Bank. The Bank is exposed to credit risk mainly in terms of loans and placements to customers and off-balance sheet items, but also in respect of exposure to banks and securities.

Given that the granting of a loan is a core activity of the Bank, credit risk is the primary risks that the Bank is exposed to.

In order to manage credit risk, the Bank defined within the Risk Management Strategy credit risk and its sub-categories.

Credit risk management is directed at maximizing the bank's risk-adjusted rate of return, by maintaining credit risk exposure within acceptable parameters.

The Bank applies the best international practices concerning credit activities, and has a well-defined credit approval process, independent review of the granted loans and an efficient credit risk management function.

The main objectives of credit risk management are:

- maintain sound credit-granting standards;
- monitor and control credit risk;
- properly evaluate new business opportunities; and
- identify and manage problem credits.

To properly manage its credit risk, the Bank has formed an organizational structure that is well suited for the volume, type and complexity of activities the Bank engages in. This structure provides that the defined goals and credit risk management principles are adhered to, while also ensuring the independence of organizational units with risk control and management function (the Risk Management Division) from organizational units with risk taking function.

The following departments of the Risk Management Division are included in credit risk management: Credit Risk Department, Credit Control Department, Collateral Management Department, Risk Modeling Department and Integrated Risk Management Department.

Credit risk management processes include the main Bank's bodies: Board of Directors, Executive Board, Audit Committee, Risk Committee, Credit Committee of the Executive Board, Regional Credit Committee of the Board of Directors, Credit Committee for loans to individuals, small business and entrepreneurs, the Board of Directors Committee for Clients under Special Review-SHC I, Executive Board Committee for Clients under Special Review-SHC II, Troubled Assets Committee and New Products Committee.

The Bank has established in its internal documents, specifically in the Risk Management Strategy and policies and procedures, the responsibilities of the said organizational units and bodies within the Bank in the credit granting process, as well as in the process of monitoring and managing the granted credits and managing the credit risk arising from those activities.

To undertake and manage the credit risk, the Bank has put in place an appropriate credit-granting process and credit risk management process. Accordingly, the Bank has developed and adopted credit policy for each division involved in credit-granting. The Bank's every credit policy (hereinafter: the Credit Policy) defines the basic concepts, instructions and rules to ensure that the process of approval, disbursement, monitoring and collection of loans and other types of exposures are managed properly. To implement a relevant Credit Policy, the Bank has also adopted other necessary documents, decisions, rules, procedures etc.

The Bank manages the credit risk at the level of the entire credit portfolio, as well as at the level of individual clients and transactions.

At the level of the entire portfolio, the Bank manages the credit risk by implementing the following activities:

- analyzing the structure and quality of the Bank's entire credit portfolio by applying different criteria (by analyzing the currency structure and structure of the business sector, the risk of non-performance and adequacy of the provisions, as well as by analyzing the collaterals and their potential deterioration);
- monitoring different exposure limits (analyzing the limits toward large exposures and to troubled assets);
- monitoring individual exposures to credit risk where early warning signs have been identified, as well as those where issues with collection have been identified; and
- analyzing the efficiency of the collection from the collaterals.

Credit risk identification is performed in the phase of initial contact with the client, in the phase of client file formation and during the lifetime of the Bank's investment. Individual placements are subject to rigorous estimation. Manner of approval and monitoring of placements, collateral that the Bank accepts, as well as the assessment of the riskiness of each of the placements is precisely prescribed by the Bank's Credit Policies, as well as the documents constituting the credit risk management framework (Credit Risk Management Policy, methodologies).

Within the framework of the Credit Risk Management Policy, the Bank defined three levels of deterioration in the borrower's creditworthiness: early warning, financial difficulties, and default, which identification is based on a set of defined indicators, the process of monitoring these indicators and the process of further action in case of occurrence of any of these indicators.

The Bank identifies as non-performing exposures (NPE) those exposures with respect to which the client is more than 90 days past due or the Bank has identified any other indication of unlikeliness to pay. Detailed criteria are defined in the Bank's Credit Risk Management Policy.

The acceptable level of non-performing receivables (NPE) and highest acceptable level of non-performing exposure (NPE) that the Bank assumes in order to accomplish its strategies goals are defined in Risk Appetite Policy and Credit Risk Management Policy. Accordingly, the Bank defined a 3 years target for NPE Ratio in Business Policy and Strategy.

Within the Credit Risk Management Policy, the Bank also defined the concept of forbearance, in accordance with the NBS Decision on Risk Management by Banks.

The basic rules which the Bank applies when assuming and managing credit risk at the level of individual clients and transactions include:

- a detailed understanding of the economic background for the transaction;
- an assessment of the client's credit capacity based on an analysis of the client's financial situation, his capacity to repay the loan, as well as of the loan repayment schedule and source of the repayment;
- an analysis of the alignment of the foreign exchange position;
- an analysis of the business sector in which the borrower operates, the borrower's position in the market, the borrower's specific characteristics and other relevant indicators;
- an analysis of the type and quality of collaterals;
- an analysis of the business relationship that has been established with the client;
- monitoring whether the loan is used for the intended purpose and of the sources of the loan repayment; and
- control of the client's operation during the loan repayment period.

The Bank systematically works to optimize existing collection processes and procedures in order to reduce the cost of collection and enable increased control over them while simultaneously increasing the collection and recovery rate. In order to ensure focused and transparent management of problematic placements of the Bank, adequate responsibility for their execution and independence from other business units responsible for risk taking, the Board of Directors (BoD) of the Bank established the Troubled Asset Sector (TAS) and adopted the Troubled Asset Sector Policy.

The Bank measures the credit risk at the level of individual clients and transactions, by assessing the client's financial situation, i.e. his creditworthiness, where the type of the indicators used depends on the type of the client and the specific nature of the client's business and legal status. Beside assessing the client's financial situation, i.e. the client's creditworthiness measured through quantitative indicators, the Bank uses a number of qualitative indicators, such as the business sector in which the client operates, the client's credit history, the quality of management, relationship with the client to date, etc.

The Bank assesses the credit risk at the level of the entire portfolio by monitoring credit risk indicators, calculating expected credit losses in accordance with IFRS 9, as well as by establishing the capital requirement for credit risk coverage in accordance with internally defined methodology.

To investigate the impact of negative developments arising from credit risk exposure, the Bank also conducts stress tests for credit risk, where the Bank includes the impact of potential events or future changes in economic conditions, as well as stress scenarios related to development of main credit risk parameters, the delinquency rate and the loss caused by the failure to meet the obligations toward the Bank.

For the measurement of impairment on exposures held at amortized cost in accordance with the IFRS 9, the Bank uses expected credit loss (ECL) model. A loss allowance is recognized for expected credit losses and it is measured at each reporting date.

The main elements which constitute the framework of IFRS 9 implementation in the Bank are:

- definition of default,
- stage allocation criteria,
- differentiation between collective and individual assessment, and
- expected Credit Loss (ECL) measurement.

The Bank applies the standardized approach for the calculation of capital requirement for the needs of quantification of necessary capital for coverage of losses arising from exposure to credit risk, pursuant to the Decision on Capital Adequacy of the National Bank of Serbia.

By the Internal Capital Adequacy Assessment Process Policy (ICAAP Policy), the Bank has defined the manner of determining the adequacy of its capital compared to the risk profile. The bank determines the internal capital requirement for credit risk as well as the techniques for stress testing of credit risk, in accordance with the Methodology for determination of internal capital requirements and stress testing for credit risk. The Bank carries out stress testing of credit risk and its subcategories, which includes a scenario related to the development of the main parameters of credit risk, i.e. default rates and losses arising from non-settlement of liabilities towards the Bank.

In the Risk Appetite Policy, the Bank has stipulated in detail the limits the Bank adheres to in the context of credit risk management, as well as the method of calculation, the reference values, and also the calculation-related responsibilities and calculation frequency. In the Credit Risk Management Policy, the Bank has additionally set internal limits, at the same or, as a rule, at a lower threshold than the one defined by regulatory limitations (which is meant to ensure that regulatory limits are not exceeded) for indicators which are internally deemed to be important at the level which the management has assessed as adequate. Furthermore, to ensure timely reaction by the management, early warning limits have also been put in place. The Bank reviews and if necessary, updates the defined limits annually. In case the limits have been breached, the Executive Board and the Board of Directors are notified, and actions are taken in line with the measures/activities defined in the Bank's internal documents.

The Bank ensures protection from credit risk exposure through:

- selection of credit applications,
- applications of limits,
- diversification of granted credits, and
- application of adequate collaterals.

To ensure protection from exposure and to manage the credit risk, the Bank regularly conducts the analysis of exposures to different types of products, different types of clients, exposure to a single client or a group of clients, levels of decision making, exposure to economic sectors etc. By doing so, the Bank monitors and reviews the set limits and in case of large risk exposures or if the existing limits are being approached, the Bank undertakes the measures to reduce the exposure or to obtain additional collaterals.

Bearing in mind that the collaterals have a significant role in risk mitigation and protection against credit risk exposure, the Bank conducts checks of collaterals in the process of their recognition and valuation.

Within credit risk and in accordance with the Methodology for assessment of risk materiality, the Bank is exposed to the following materially significant sub-categories of credit risk: foreign-currency induced credit risk, concentration risk, residual risk and interest-rate induced credit risk. Accordingly, the Bank controls and manages the aforementioned risks in parallel with managing the credit risk.

The objectives of the management of credit and foreign-currency induced credit risk, residual risk, interest-rate induced credit risk and concentration risk are in correlation with the objectives for credit risk management and aimed at ensuring adequate diversification of loan and collateral portfolios and prevention of high concentration.

Foreign-currency induced credit risk is the risk of financial loss due to an obligor's inability to fulfil their obligations to the Bank caused by adverse movements in foreign exchange rates.

The Bank manages the foreign-currency induced credit risk at the level of single borrowers and at the level of the entire credit portfolio. The Bank has set forth the main rules of financing and principles of credit-granting, credit monitoring and credit risk management, including credit risk in foreign-exchange transactions in its internal Credit Policies and in the Methodology for application of classification criteria of bank receivables in line with the Decision of the National Bank of Serbia on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet items.

Interest-rate induced credit risk is the risk of financial loss due to an obligor's inability to fulfil their obligations to the Bank caused by adverse movements in interest rates. In the current global low interest-rate environment, interest rate-induced credit risk also poses a significant concern.

The Bank performs the assessment of the internal capital requirement for interest-rate induced credit risk by varying PD's to account for possible impact of adverse movements in interest rates.

Concentration risk is the risk of large or correlated financial losses due to the Bank's overexposure to a single or correlated source of risk. This may be overexposure to a single entity, a group of related entities, or a group of entities or exposures subject to correlated adverse events (e.g. borrower segment, industry, product type, collateral type, and geographic region of the borrower or the collateral). Concentration risk may be present with respect to different types of risk, including credit, market and liquidity risk.

To assess and manage concentration risk, the Bank applies the established limits defined by the Decision on Risk management, as well as limits for exposure to this type of risk defined by internal policies and guidelines, which enable diversification of the credit portfolio.

The Risk Management Department continuously monitors exposure to certain types of clients, industry sectors and types of collateral and reports on the utilization of the set limits to the competent management bodies (Executive Board, Risk Committee, Audit Committee and the Board of Directors).

Additionally, the Bank analyzes the concentration risk at the level of the entire portfolio when assessing the internal capital requirements for this risk, within ICAAP.

Residual risk is the risk of financial loss due to the fact that credit risk mitigation techniques may prove less effective than expected. Residual risks include market, liquidity, legal and documentation risks with respect to credit risk mitigation techniques. Taking into consideration the importance of collaterals and their efficiency in credit risk mitigation, the Bank has within its credit policies and procedures clearly defined the acceptable categories of collaterals, the criteria for their acceptance, monitoring and insurance in case of negative developments.

The Bank includes the impact of this risk in the calculation of internal capital requirement for credit risk, in line with the Methodology for the calculation of internal capital requirements and stress testing for credit risk.

Country risk

Country risk is the risk of financial loss due to the Bank's inability to collect receivables from a counterparty for reasons arising from political, economic or social circumstances in their country of origin. Subcategories of country risk include:

- political and economic risk arises from restrictions established by regulations of government and other authorities of the borrower's country, as well as general and systemic circumstances in the country; and
- transfer risk arises from the Bank's inability to collect receivables in a currency that is not the official currency of the borrower's country, due to the borrower's inability to obtain the necessary foreign currency to meet its debt obligations or restrictions on payment of obligations to creditors from other countries in a specific currency, imposed by regulations of government and other authorities in the borrower's country of origin.

For all countries except Serbia, a specific limit per country is approved, based on the credit rating of the country, the size of its economy and the relevance of the specific country in the Bank's operations. Country exposure limits cover:

- securities issued by sovereign or corporate entities domiciled in the specific country;
- any exposure to financial institutions domiciled in the specific country; and
- cross-border loans and guaranties.

Market risk

Market risk is the risk of negative effects on the Bank financial result due to changes in the value of balance sheet positions caused by the change of market prices. In terms of market risk, the Bank is exposed to the risk of changing the prices of debt and equity securities and foreign exchange risk. The existing market risk related portfolio of the Bank consists of debt securities (bonds and T-bills of the Republic of Serbia), derivatives and to the small extent – shares of the companies that are listed on the Belgrade Stock Exchange (BSE).

The price risk of debt securities represents the risk of changes in the price of these securities due to changes in interest rates and includes the specific and general price risk. The general risk of the prices of debt securities is a risk of change in prices of debt financial instruments caused by changes in the general level of interest rates. The specific risk of the prices of debt securities represents the risk of change in prices of debt financial instruments caused by a change in the factors related to the issuer of the securities.

The price risk of equity securities represents the risk of change in the price of these securities and may be general or specific. The general price risk of equity securities represents the risk of change in the price of the owner's financial instruments caused by changes in the general level of prices of such securities. The specific price risk of equity securities is the risk of change in the price of the owner's financial instruments caused by the change of factors relating to the issuer of the securities.

The assessment of the market risk exposure includes the following in particular:

- all Bank activities sensitive to the change of market conditions;
- all open positions arising from Bank activities;
- exposure concentration in the trading book;
- liquidity of all financial markets the bank trades at;
- volatility of the market price of Bank's trading financial instruments;
- complex financial instruments and financial derivatives; and
- embedded options.

Goals of market risk control and monitoring are as follows:

- protecting the Bank from unforeseen market losses and contributing to the income stability through independent identification, assessment and understanding of market risks in operations;
- developing transparent, objective and consistent information on market risks as the basis of adequate decision making;
- implementing market risk control standards determined by the National Bank of Serbia and Eurobank Group.

Interest rate risk in the Banking Book

Interest rate risk in the Banking Book is the risk of negative effects occurrence on Bank financial results and capital due to changes in the value of its assets and liabilities or due to the opportunity cost caused by the change in interest rates on the market.
Main sources of interest rate risk are as follows:

- risk of maturity mismatch or re-pricing period mismatch of Asset and Liability (Repricing risk);
- yield curve risk the Bank is exposed to due to the change of short- and long-term interest rates, i.e. due to the change in the shape of the yield curve (Yield curve risk);
- basis risk the Bank is exposed to due to different referential interest rates in Asset and Liability, with the similar characteristics in terms of maturity or re-pricing (Basis risk); and
- optionality risk arising from the client's decision to use his contractual right to repay the loan early or to withdraw the deposit, as a result of an interest rate fluctuation (Optionality risk).

Interest rate risk management is directed at ensuring adequate profitability and safety of Bank business operations within the established risk appetite by maintaining interest rate exposure within the defined limits and specific thresholds.

Main goals of interest rate risk management are as follows:

- optimization of assets and liabilities position sensitive to interest rate movements;
- timely assessment of negative effects of interest rate changes; and
- limiting potential losses from change of interest rates.

With regards to the assessment of the interest rate risk exposure and its effect on financial result, the Bank analyses two perspectives:

- the perspective of the income sheet where the analysis focuses on the impact of interest rate changes to calculated and declared financial result, through the change in net interest income (short term perspective); and
- the perspective of the economic value, analyzing the impact of interest rate change on economic value of Bank assets, liabilities and off-balance sheet positions (long term perspective).

In order to measure and assess the interest rate risk, the Bank analyses the following:

- value of on balance sheet and off-balance sheet positions sensitive to interest rate changes;
- interest rate volatility;
- time period over which there is an exposure to interest rate risk; and
- application of stress scenarios.

The Bank manages interest rate risk by applying its internal policies through which it limits and monitors interest rate risks, as well as by implementing activities and techniques which mitigate the risk of net assets decrease due to adverse movements of interest rates. In this respect, the Bank applies the following models for interest rate risk management:

- gap analysis;
- measurement of Bank income sensitivity to change in interest rates; and
- scenario analysis.

Interest rate risk management represents a set of measures by which Bank minimizes interest rate risk as follows:

- ensuring that assets and liabilities items sensitive to interest rate movements are as balanced as possible; and
- monitoring defined internal limits which are regularly re-examined and reviewed, if necessary.

In order to decrease and hedge this risk, the Bank may carry out the following activities:

- undertake measures to change the date of balance sheet assets interest rate date;
- use financial derivatives to hedge the interest rate risk; and
- define new products to mitigate the undertaken interest rate risk.

Currency risk

Currency Risk represents the risk of the possibility of occurrence of negative effects on the Bank financial results and capital due to foreign currency exchange rate changes, and the Bank is exposed to this risk on the basis of the items in the banking book and the trading book.

Exposure to this risk may lead to a potential loss on open FX position that is not covered and secured (assets, liabilities, capital and FX obligations) if (from the viewpoint of the reporting currency) the currency of the FX position depreciates, or potential income if the foreign currency appreciates with regards to the reporting currency.

FX assets are defined as assets in foreign currency, RSD assets with currency clause, gold and precious metals, reduced by the amount of provisions for these assets.

FX liabilities are defined as liabilities in foreign currency, RSD liabilities with currency clause, gold and precious metals.

Currency risk management is directed at maintaining the exposure to this type of risk within the defined limits and achieving the planned profit.

Main goals of currency risk management are as follows:

- ensuring the optimal currency structure of assets and liabilities in Bank balance sheet;
- timely assessment of negative effects on financial result caused by adverse currency movements; and
- limiting potential losses from currency movements.

Main sources of currency risk include:

- direct risk arising as the consequence of currency exchange rate movements; and
- volatility risk representing the risk of the exchange rate volatility.

The Bank may be exposed to currency risk from assets and liabilities currency structure mismatch arising from the change in value of inter-currency rates and local currency leading to change in the value of future income and expense. Also, the Bank may be exposed to this risk due to transaction denominated in foreign currency.

In order to measure and assess currency risk, the Bank applies internally defined methodologies through which it examines the degree of currency risk exposure by calculating FX position and currency risk indicators, determining internal capital requirement, performing gap analysis and by stress testing.

The Bank maintains the currency risk exposure by regular monitoring and control of the open FX position in relation to:

- internally established limits in accordance with the risk appetite (the prescribed limit for open FX position stands at EUR 20 million maximum); and
- regulatory ratio (open FX position is limited to 20% of the Bank regulatory capital).

If the currency risk increases, the Bank shall use risk mitigation techniques which include (but are not limited to):

- undertaking measures to change the currency structure of assets and liabilities;
- closing of open position at the interbank market; and
- using financial derivatives to hedge currency risk;

Operational risk

Operational risk is the risk of the possible occurrence of negative effects on Bank financial results and capital due to omissions (deliberate or accidental) of the employees, inadequate internal procedures and processes, inadequate management of IT and other Bank systems, as well as due to the occurrence of unforeseeable external events. Operational risk includes legal risk representing the risk of adverse effects on the Bank’s financial result and capital arising from court or out-of-court proceedings relating to the Bank’s operation (contracts and torts, labor relations, etc.).

Bank strategy is to always maintain its operational risk exposure at the lowest possible level.

Main goals of operational risk management are as follows:

- preparation and implementation of Operational risk management policy and operational risk methodologies (including risk and control self-assessment);
- development and/or acquiring of appropriate operational risk management infrastructure and technology
- promoting the use of key risk indicators where suitable;
- establishing the minimum necessary data and information for reporting operational risk events by organizational units;
- periodical submission of reports that reflect the operational risk profile of the Bank, to the Executive Board, Operational Risk Committee, Risk Committee and to Audit Committee; and
- supervision and support to operational risk functions in all segments of the Bank's operations, including anti-fraud functions.

Fluid form of operational risks, which accounts for their presence in all segments of business operations, significantly affects modeling of the management process which is based on proactive approach and management at all decision-making levels of the Bank.

Operational risk management process has a functionally connected, phased structure. Main phases of the process are as follows:

- risk identification;
- assessment of exposure to operational risk;
- introduction of the appropriate control mechanisms for managing and mitigating operational risk exposure of the Bank;
- analysis of the implemented control mechanisms and their efficiency; and
- analysis of residual risks after the introduction of a control mechanism and the analysis of its efficiency.

Strategic goals of the Bank operational risk management are as follows:

- Maintaining the safety of the Bank and its resources at an acceptable level;
- Undertaking corrective activities related to operational risk events which significantly impact Bank performance and may lead to significant financial losses; and
- Complying with the requirement of the local bank supervision and the competent international institutions, including Basel Committee for Bank Supervision.

When managing operational risk, the Bank identifies the existing operational risk sources, as well as potential risk sources that may arise from the introduction of new products, services, new processes and systems and also from outsourcing of the Bank activities.

When identifying risks, the sources of operational risk are determined and are monitored per business lines and other criteria prescribed in the internal methodology by means of which the Bank creates an internal operational risks database.

Apart from collecting and managing operational risk events (historical data), the Bank applies the following methods:

- creating key risk indicators (KRI) – indicators based on historical data which point to the operational risk exposure (at present);
- risks and controls self-assessment (RCSA), the aim of which is to identify, assess and ultimately mitigate operational risk (short term aspect of risk assessment); and
- scenario analysis, through which internal capital requirement is determined and operational risk stress testing is performed (mid-term to long-term assessment).

Other than that, the Bank established standards of information systems operations (including also the alternative channels services), developed systems of their protection and established process of business continuity management – plan of operations in crisis situations, as well as disaster recovery plan.

In order to mitigate and hedge operational risk, the Bank uses the following measures:

- covering all Bank activities by appropriate internal regulatory documents (policies, guidelines, procedures, working instructions and the like) and their regular reviewing;
- controlling their implementation;
- providing crime and civil liability insurance policy (BBB), directors & officers liability insurance policy as well as cyber insurance policy;
- providing property insurance policy.

8. EXPOSURE TO SIGNIFICANT FINANCIAL RISKS

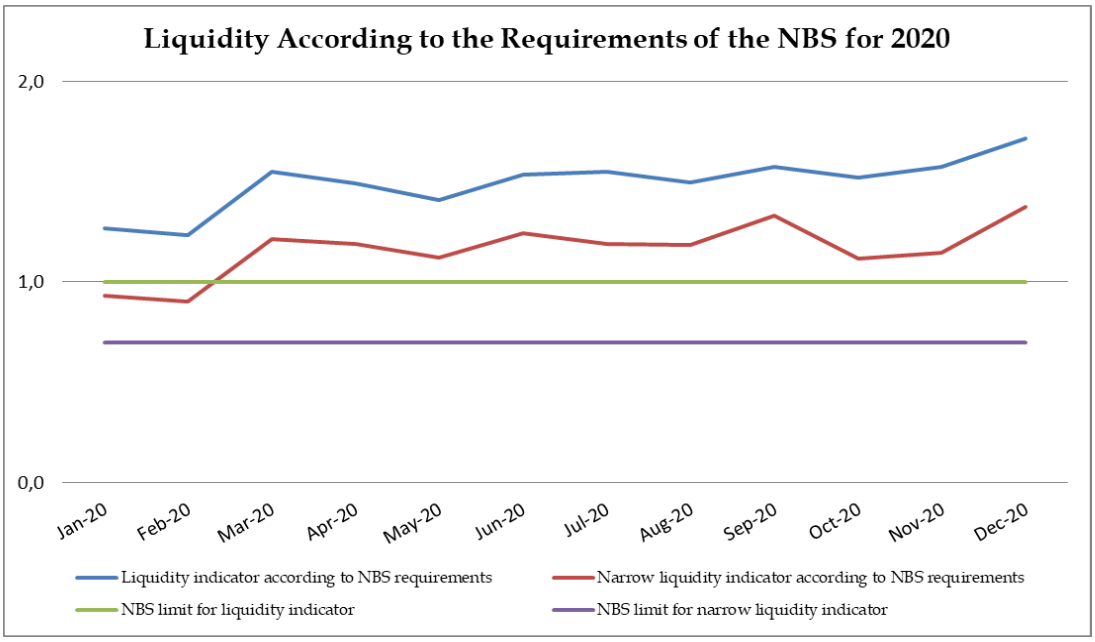
Liquidity risk

During 2020, the Bank continued to maintain a satisfied level of liquidity which can be illustrated through the analysis of the prescribed regulatory liquidity ratio and narrow liquidity ratio.

The liquidity ratio is the ratio of the sum of first and second order liquid assets (cash, funds at the accounts with other banks, deposits with the Central Bank, receivables in realization process, irrevocable credit lined approved to the bank, financial instruments quoted on the stock market and other bank receivables with maturity up to 1 month).

The narrow liquidity ratio is the ratio of level 1 liquid receivables of a bank and the sum of liabilities payable on demand or with no agreed maturity and liabilities falling due within a month from the date of liquidity ratio calculation.

During the whole period, the two ratios were above the borderline values prescribed by NBS as illustrated in the graph bellow:



In accordance with the regulatory limits, the Bank maintained liquidity ratios above the prescribed level, which stands at above 1 for liquidity ratio, and above 0.7 for the narrow liquidity ratio.

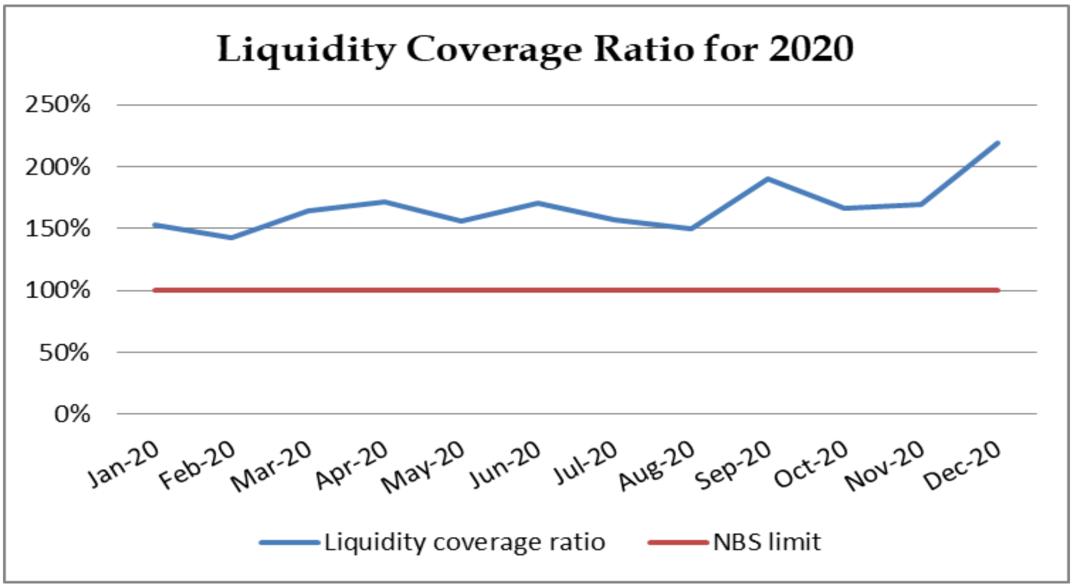
The Bank liquidity ratio in 2020, at the last day of the month, ranged from 1.23 to 1.71, whereas the narrow liquidity ratio ranged from 0.90 to 1.38.

As at 31 December 2020, the Bank calculated the following values:

- Liquidity ratio: 1.71;
- Narrow liquidity ratio: 1.38.

In addition to the aforementioned two ratios, the bank has calculated another liquidity ratio, Liquidity Coverage Ratio, which is an integral part of the regulatory requirements. The liquidity coverage ratio is the ratio of liquidity buffer and net liquidity outflows over a 30-day stress period.

Liquidity Coverage Ratio ranged all the time above the limit value prescribed by the NBS of 100%, which is illustrated in the graph bellow:



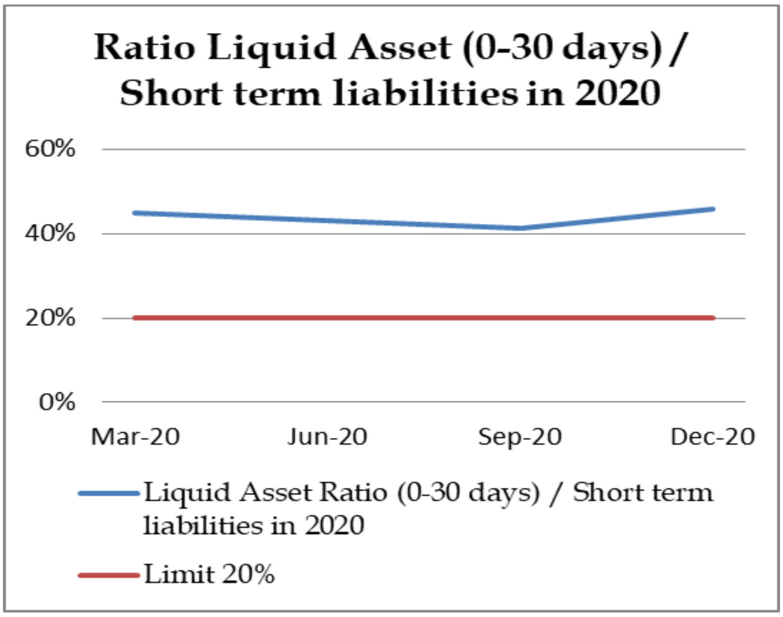
Liquidity coverage ratio in 2020 ranged from 142% to 219%. As at 31 December 2020, it amounted to 219%.

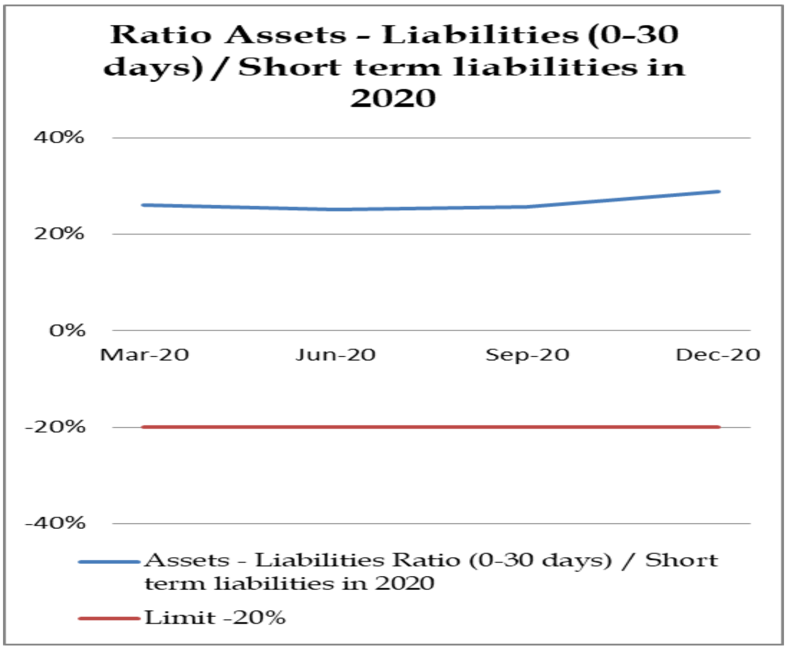
For the purpose of monitoring the risk exposure towards cash inflow and outflow gap, the Bank balance positions are distributed into 7-time segments based on which gap is determined, and in turn, based on this gap the Bank determined the internal liquidity ratios:

- Liquid assets (0 - 30 days)/short term liabilities, and
- Gap (0 - 30 days)/short term liabilities.

During 2020, the Bank maintained a satisfied level of liquidity as per internally determined ratios which were above the prescribed limits which testifies to the fact that the Bank settled all its obligations without delays and that the clients could, at any given moment, dispose of their funds without limitations.

The Bank's liquid position is illustrated in the following graphs:





Internally prescribed limit for the ratio of liquid assets up to 30 days and short-term liabilities stands at 20%. During 2020, realized ratio ranged between 41.33% and 45.82%.

For the indicator which refers to the overall gap of assets and liabilities up to 30 days and short-term liabilities, the internally prescribed borderline value is -20%. Realized ratio ranged from 25.18% to 28.89%.

Considering the conditions in the local banking market, as well as the macroeconomic indicators in Serbia and globally, during 2020, a solid diversification of funding sources was achieved, whereas further optimization of the funding sources remains one of goals in 2021.

Credit risk

In accordance with the Decision on the capital adequacy, the Bank applies standardized approach for measurement of credit risk within which all exposures are assigned to the appropriate class for which different risk weights are applied and capital requirements for credit risk are calculated. For the purpose of internal capital adequacy assessment, the Bank applies the adjusted approach, correcting the standardized approach in line with internal risk appetite.

Comparative review of important classes of exposure and capital requirements is provided in the following table:

Exposure classes	**Net exposure**		**Capital requirements**	
(in 000 RSD)	**31.12.2020.**	**31.12.2019.**	**31.12.2020.**	**31.12.2019.**
Republic of Serbia and Central Bank of Serbia	41,989,299	39,653,416	-	-
Banks	25,783,595	18,108,461	213,993	415,982
Retail exposures	82,849,327	76,998,271	4,274,565	4,097,317
Corporative	65,938,546	53,807,271	4,158,044	3,616,777
Multilateral Development Banks	-	3,828,277	-	-
High Risk exposures	4,328,279	4,241,995	395,363	208,451
Exposures secured by mortgages on real estate	7,484,561	7,659,462	197,100	218,897
Exposures in default status	6,233,542	6,621,473	624,540	660,792
Other exposures	193,048,714	193,530,782	515,846	558,354
Total	**427,655,863**	**404,449,408**	**10,379,451**	**9,776,570**

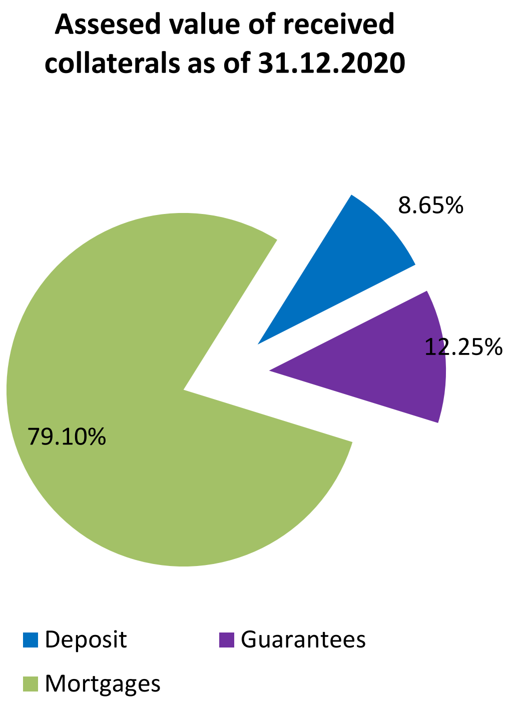
For the purposes of monitoring the quality of the loan portfolio, all exposures, according to the criteria of the National Bank of Serbia are classified into five categories of risk. Quality review of the total portfolio is given in the following table:

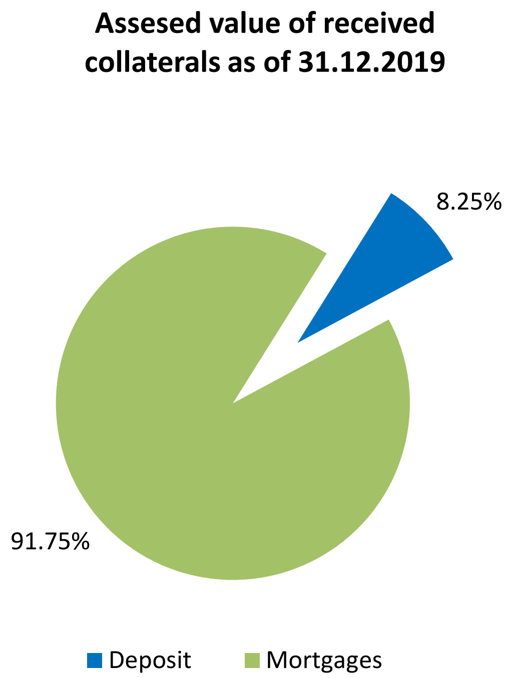
(in 000 RSD)

Period	**31.12. 2020.**			**31.12.2019.**
Category	**Assets**	**Off-balance items**	**Total**	**Total**
A	55,781,917	3,992,118	59,774,035	52,815,713
B	61,539,181	21,400,759	82,939,940	79,529,673
V	19,588,557	5,379,348	24,967,905	12,896,538
G	2,237,184	57,319	2,294,503	4,896,895
D	10,966,551	6,069,344	17,035,895	17,200,873
Total	**150,113,390**	**36,898,888**	**187,012,278**	**167,339,692**

In the total Bank's portfolio as at 31.12.2020, the largest amount of exposure refers to the categories of acceptable levels of risk (A, B and V category). Compared to the previous year, there was no significant change in the participation of problematic categories G and D decreased from 13.21% to 10.34%. On the other side, the participation of acceptable (i.e. performing) categories increased from 86.79% to 89.66%.

For the purpose of mitigating credit risk exposure, the Bank obtains credit risk mitigation instruments (collaterals). Overview of the received collaterals is given in the following graphic:





In order to minimize the exposure to credit risk, the Bank continuously conducts the following activities:

- consistent application of the methodology and procedures relating to credit risk assessment;
- adequate diversification of the credit portfolio in order to disperse credit risk and minimize potential losses;
- identifying early warning signals that may indicate a deterioration in the clients' creditworthiness, in order to timely take appropriate actions to protect the Bank's lending portfolio, and therefore also the capital;
- monitoring of individual exposures and clients; and
- monitoring the total lending portfolio, in order to maintain the quality of the loan portfolio, timely detect and monitor non-performing loans, as well as the formation of reserves that contribute to the coverage of credit losses.

Market risk

The Bank applies standardized approach for the calculation of capital requirements for market risk in accordance with NBS requirements in order to determine capital adequacy.

Capital requirement for price risk from open positions of trading portfolio of the debt and proprietary securities, as well as derivatives, shares, interest rates and foreign currency exchange rate, are calculated as the sum of the following:

- general risk, risk of price change of the relevant financial instrument due to general change of the interest rate or price level at the stock market, calculated on the basis of the standardized approach, and
- specific risk, i.e. the risk of price change of the relevant financial instrument due to factors related to the issuer, calculated on the basis of the standardized approach.

Capital requirement for price risk is calculated as per trading book elements, by means of the maturity date method, also considering long or short positions of debt securities as well as other short positions of swap and forward contracts recorded in the trading book in currencies as per transactions performed, as well as per the remaining period until due date.

On the basis of the trading book position in the amount of RSD 15.39 bn as at 31 December 2020, the Bank calculated capital requirements for:

- price risk from proprietary securities in the amount of RSD 43 thousand, and
- price risk from debt securities and derivative contracts in the amount of RSD 5,572 thousand.

Bank exposure arising from investment into entities outside of the financial sector and into Bank PPE, as of 31 December 2020, were within regulatory requirement of 60% of the regulatory capital and amounted to 15.18%.

Interest rate risk

The Bank has internal mechanism developed for managing the interest rate risk in the banking book in accordance with the Risk Management Policy and Strategy and with the aim of defining in detail the process of identification, measurement, mitigation, and reporting on the interest rate risk.

Once a month, the Bank determines the total interest rate gap through which it observes maturity gap of interest-sensitive assets and liabilities as a whole, but also individually per significant currencies.

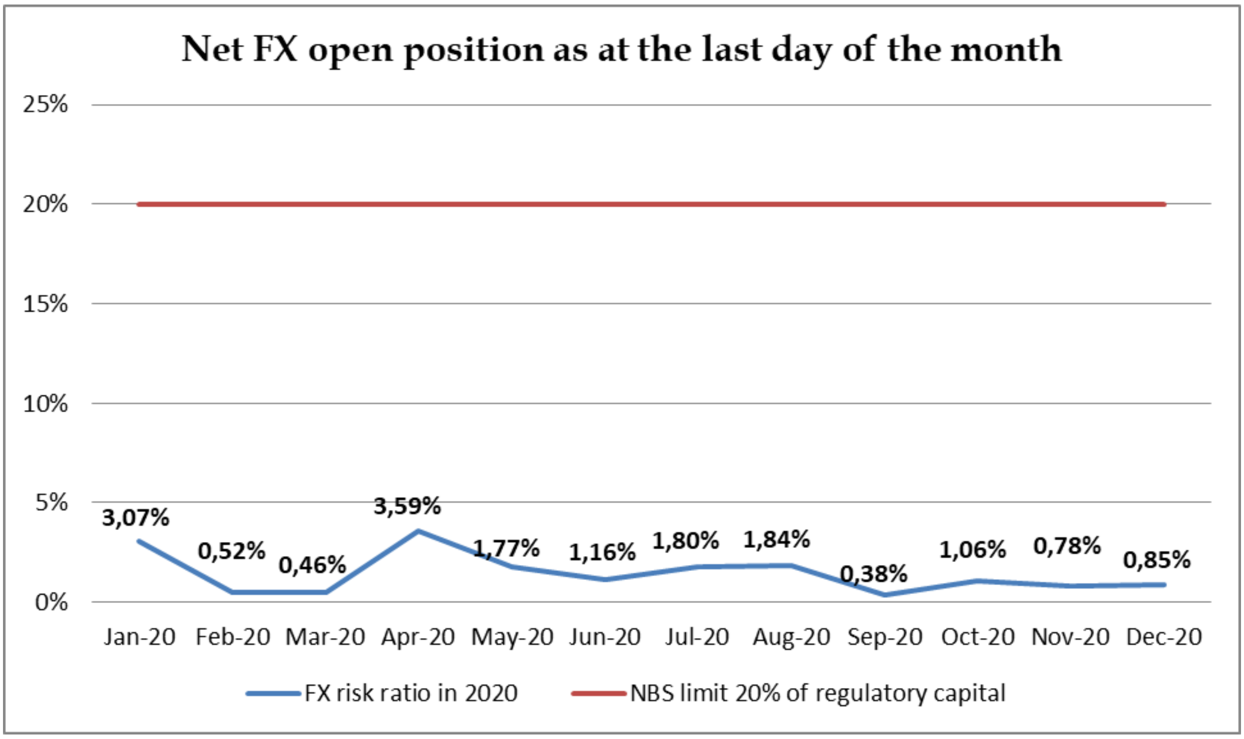
The impact of the interest rate on capital is measured by calculating the sensitivity of the economic value of equity to the change of interest rates.

During 2020, the interest rate risk indicator, as the measure of the impact on the Bank capital, remained below the defined limit of 10% of regulatory capital. Exposure to subcategories of interest rate risk, as of 31 December 2020 is as follows:

- base risk 0.54%;
- repricing risk 0.70%;
- yield curve risk 0.69%;
- optionality risk 0.87%.

Currency risk

Bank's strategy in terms of the currency risk is aligned with the strategic goals of the overall business operations and is shown through compliance with both the regulatory limit of the National Bank of Serbia standing at 20% of the Bank's capital, and the internally prescribed limit for net open FX position amounting to EUR 20 million.



During 2020, at the last day of the month, the value of the FX risk ratio was well below the borderline value and as of December 31st it stood at 0.85%, whereas during 2020 it ranged from 0.38% to 3.59%, as of the last working day of a month. The exposure in EUR is dominant in the currency exposure structure. The largest average exposure was in EUR, with the average limit utilization of 21.95% (against the limit of EUR 20 million).

Open FX position (without derivatives) as of 31 December 2020 is given in the following table:

(000 EUR)

	Currency	Exposure	Internal limit utilization %
FX open position	EUR	(2,162)	10.8%
	CHF	(380)	19.0%
	USD	(53)	1.1%
	Other currencies	767	12.8%

Gaps per currencies are continually monitored and, when necessary, appropriate measures are undertaken to mitigate severe oscillations and to control the currency risk exposure.

As of 31 December 2020, assets and liabilities in foreign currencies, both in total and individually per foreign currencies, are matched to the extent acceptable by the regulator and also by the Bank's management.

(000 EUR)	EUR	
	Total	**Indexed**
Long position	835,946	588,591
Short position	838,108	8,442
Gap	(2,162)	580,149

(000 EUR)	USD	
	Total	**Indexed**
Long position	17,736	0
Short position	17,789	0
Gap	(53)	0

(000 EUR)	CHF	
	Total	**Indexed**
Long position	30,730	5,719
Short position	31,110	345
Gap	(380)	5,374

(000 EUR)	Other currencies	
	Total	**Indexed**
Long position	6,969	0
Short position	6,202	0
Gap	767	0

The Bank continually conducts currency risk management in order to maintain the exposure to the acceptable level.

Currency risk internal controls system is integrated into all bank business activities, as well as the independent control of the adequacy and efficiency assessment of the currency risk management system.

As a part of the currency risk management, the Bank uses derivatives and other instruments and measures with regards to assets and sources of assets in order to decrease and mitigate the exposure to the said risk.

The Bank established a reporting system which includes internal and external reporting. In accordance with the said reporting system the Risk Management Division reports in a timely manner to the National Bank of Serbia and the Bank management, as well as to the competent boards and committees, and organizational units.

Internal reporting system includes the currency risk exposure assessment, compliance with the external and internal limits as well as the stress testing results.

Operational risk

Operational risk is encompassed by the regulatory capital requirement in line with the Decision on capital adequacy. Accordingly, the Bank decided to use the basic indicator approach (BIA) to calculating minimum capital requirements for operational risk.

In addition, the Bank monitors the regulatory capital adequacy through the establishment of an internal capital requirement, as well as through stress testing for operational risk using an internally developed loss distribution approach (LDA).

The amount of internal capital requirements for operational risk in 2020, calculated using LDA, was estimated at RSD 1,368.64 million.

9. INFORMATION ON THE PURCHASE OF OWN SHARES

During the year 2020 and 2019 the Bank did not perform purchase of own shares.

10. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would have significant impact on the financial statements of the Bank as at 31 December 2020.

Belgrade, 15 April 2021

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer