KOMERCIJALNA BANKA AD BEOGRAD

ANNUAL REPORT OF A PUBLIC COMPANY FOR THE YEAR 2018

Belgrade, April 2019

CONTENTS

To be filled out by the bank
Registration number: 0 7 7 3 7 0 6 8 Activity code: 6 4 1 9 Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD
Bank's registered office: Beograd, 14, Svetog Save Street

BALANCE SHEET

as of 31.12.2018.

(in RSD thousand)

Group of accounts, account	ITEM	ADP code				Remark number	Current year amount	Previous year amount	
								Closing balance	Opening balance
1	2	3				4	5	6	7
00 without 002, 010, 025, 05 (exept 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and assets held with central bank	0	0	0	1	22	63.595.710	49.840.887	-
	Pledged financial assets	0	0	0	2		-	-	-
120, 125	Receivables from derivatives	0	0	0	3	23	4.070	-	-
120, 122, 124, 220, 222, 224, 129, 229	Securities	0	0	0	4	24	133.177.598	117.288.767	-
002, 01 (except 010 and part of 019), parts of 020, 028, 050, 052, 06 (except 060 and part of 069), parts of 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, parts of 493 and 593 as deductible items (SSKR - SS code 1 (except code 17), code 70 and parts of codes 71 and 74) and parts of 009, 029, 059, 089, 199 and 299	Loans and receivables due from banks and other financial institutions	0	0	0	5	25	18.477.729	29.543.789	-
01 (except 010 and part of 019), parts of 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, parts of 493 and 593 as deductible items (SSKR - SS code 17 and all other codes except the code 70 and parts of codes 71 and 74) and parts of 029, 069, 089, 199 and 299	Loans and receivables due from customers	0	0	0	6	26	167.545.674	153.897.367	-
123, 223	Changes in fair value of items that are the subject of hedging	0	0	0	7		-	-	-
126, 226	Receivables from derivatives held for hedging	0	0	0	8		-	-	-
130, 131, 230, 231, part of 139 and 239	Investments in associates and joint ventures	0	0	0	9		-	-	-
132, 232, part of 139 and 239	Investments in subsidiaries	0	0	1	0	27	2.611.859	2.611.859	-
33	Intangible assets	0	0	1	1	28	557.051	460.263	-
34	Property, plant and equipment	0	0	1	2	29	5.619.078	5.655.248	-
35	Investment property	0	0	1	3	30	1.896.347	1.988.608	-
034 and part of 039	Current tax assets	0	0	1	4		-	-	-
37	Deferred tax assets	0	0	1	5	21.4.1	840.967	857.096	-
36	Non-current assets held for sale and discontinued operations	0	0	1	6	31	227.630	241.148	-
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of 029, 089, 139, 199, 239 and 299	Other assets	0	0	1	7	32	6.612.267	6.798.506	-
	TOTAL ASSETS (from 0001 to 0017)	0	0	1	8		**401.165.980**	**369.183.538**	**-**

Group of accounts, account	I T E M	ADP code	Remark number	Current year	Previous year	
					Closing balance	Opening balance
1	2	3	4	5	6	7
411, 511	**LIABILITIES** Liabilities from derivatives	0401	33	-	7.845	-
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (SSKR - SS code 1 (without code 17) and code 70 and parts of codes 71 and 74)	Deposits and other liabilities due to banks, other financial institutions and the central bank	0402	34	5.662.748	4.532.505	-
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (SSKR - SS code 17 and all other codes, except for code 70 and parts of codes 71 and 74)	Deposits and other liabilities due to other customers	0403	35	317.229.084	292.471.640	-
417, 517	Liabilities from derivatives held for hedging	0404		-	-	-
418, 518	Changes in fair value of items that are the subject of hedging	0405		-	-	-
410, 412, 415, 423, 496, 510, 512, 515, 523, 596 and 127 and 227 as deductible items	Liabilities from securities	0406		-	-	-
424, 425, 482, 497, 524, 525, 582, 597 and parts of 193 and 293 as deductible items	Subordinated liabilities	0407		-	-	-
450, 451, 452, 453, 454	Provisions	0408	36	1.653.663	1.368.051	-
46	Liabilities from non-current assets held for sale and discontinued operations	0409		-	-	-
455	Current tax liabilities	0410		-	-	-
47	Deferred tax liabilities	0411		-	-	-
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0412	37	9.059.972	7.543.442	-
	TOTAL LIABILITIES (from 0401 to 0412)	0413		**333.605.467**	**305.923.483**	**-**
80	EQUITY Equity	0414	38	40.034.550	40.034.550	-
128	Own shares	0415		-	-	-
83	Profit	0416	38.1.	9.047.691	8.137.249	-
84	Loss	0417		-	-	-
81, 82 - credit balance	Reserves	0418	38.1	18.478.272	15.088.256	-
81, 82 - debit balance	Unrealized losses	0419		-	-	-
	Non-controlling interest	0420		-	-	-
	TOTAL EQUITY (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) ≥ 0	0421		**67.560.513**	**63.260.055**	**-**
	TOTAL DEFICIENCY OF CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0	0422		**-**	**-**	**-**
	TOTAL LIABILITIES (0413 + 0421 - 0422)	0423		**401.165.980**	**369.183.538**	**-**

In Belgrade,

on 12.03.2019.

Legal representative of the bank

To be filled out by the bank
Registration number: 0 7 7 3 7 0 6 8 Activity code: 6 4 1 9 Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD
Bank's registered seat: Beograd, 14, Svetog Save Street

INCOME STATEMENT

in period from January 1st to December 31st, 2018.

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	8	13.744.908	14.052.436
60	Interest expenses	1	0	0	2	8	910.270	1.606.239
	Net interest income (1001-1002)	1	0	0	3		**12.834.638**	**12.446.197**
	Net interest expenses (1002-1001)	1	0	0	4		**-**	**-**
71	Fee and commission income	1	0	0	5	9	7.207.872	6.700.216
61	Fee and commission expenses	1	0	0	6	9	1.997.723	1.617.990
	Net fee and commission income (1005 - 1006)	1	0	0	7		**5.210.149**	**5.082.226**
	Net fee and commission expenses (1006 - 1005)	1	0	0	8		**-**	**-**
774-674+776-676+777-677	Net gains from changes in fair value of financial instruments	1	0	0	9	10	44.076	56.537
674-774+676-776+677-777	Net losses from changes in fair value of financial instruments	1	0	1	0		-	-
727-627+728-628	Net gains on reclassification of financial instruments	1	0	1	1		-	-
627-727+628-728	Net losses on reclassification of financial instruments	1	0	1	2		-	-
720-620+721-621	Net gains based on derecognition of financial instruments valued at fair value	1	0	1	3	11	230.194	91.584
620-720+621-721	Net losses based on derecognition of financial instruments valued at fair value	1	0	1	4		-	-
775-675+770-670	Net gains based on hedging	1	0	1	5		-	-
675-775+670-770	Net losses based on hedging	1	0	1	6		-	-
78-68	Net income from foreign exchange differences and the effects of contracted foreign currency clause	1	0	1	7		-	-
68-78	Net expenses from foreign exchange differences and the effects of contracted foreign currency clause	1	0	1	8	12	7.458	56.358
750-650+751-651+756-656+760-660+729-629	Net income from reversal of impairment of financial assets that are not valued at fair value through profit and loss	1	0	1	9	13	9.493	17.883
650-750+651-751+656-756+660-760+629-729	Net impairment losses of financial assets that are not valued at fair value through profit and loss	1	0	2	0		-	-
726-626	Net gains based on derecognition of financial instruments valued at amortised cost	1	0	2	1	14	526.547	-
626-726	Net losses based on derecognition of financial instruments valued at amortised cost	1	0	2	2		-	-
723-623	Net gains based on derecognition of investments in associates and joint ventures	1	0	2	3	15	-	306
623-723	Net losses based on derecognition of investments in associates and joint ventures	1	0	2	4		-	-

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year
1	2	3				4	5	6
74, 766	Other operating income	1	0	2	5	16	155.969	183.973
	NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1	0	2	6		**19.003.608**	**17.822.348**
	NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1	0	2	7		**-**	**-**
63, 655-755	Costs of salaries, allowances and other personnel expenses	1	0	2	8	17	4.442.799	4.520.197
642	Depreciation costs	1	0	2	9	18	551.988	563.582
752, 753, 761, 762, 767, 768, 773	Other income	1	0	3	0	19	280.229	753.804
64 (exept 642), 652, 653, 661, 662, 667, 668, 673	Other expenses	1	0	3	1	20	6.167.977	6.305.123
	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1	0	3	2		**8.121.073**	**7.187.250**
	LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1	0	3	3		**-**	**-**
850	Tax on profit	1	0	3	4		-	-
861	Deffered tax income for the period	1	0	3	5	21.1	700.754	1.335.828
860	Deffered tax expense for the period	1	0	3	6	21.1	676.645	405.710
	PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1	0	3	7		**8.145.182**	**8.117.368**
	LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1	0	3	8		**-**	**-**
769-669	NET PROFIT OF DISCONTINUED OPERATIONS	1	0	3	9		-	-
669-769	NET LOSS OF DISCONTINUED OPERATIONS	1	0	4	0		-	-
	NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1	0	4	1		**8.145.182**	**8.117.368**
	NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1	0	4	2		**-**	**-**
	Profit attributable to parent legal entity	1	0	4	3		-	-
	Profit attributable to non-controlling interest stakeholders	1	0	4	4		**-**	**-**
	Loss attributable to parent legal entity	1	0	4	5		-	-
	Loss attributable to non-controlling interest stakeholders	1	0	4	6		-	-
	Earnings per share							
	Basic earnings per share (in RSD, rounded)	1	0	4	7	38.2	484	482
	Diluted earnings per share (in RSD, rounded)	1	0	4	8	38.2	484	482

In Belgrade,
on 12.03.2019.

Legal representative of the bank

To be filled out by the Bank		
Registration number: 0 7 7 3 7 0 6 8	**Activity code: 6 4 1 9**	**TIN: 1 0 0 0 0 1 9 3 1**
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

STATEMENT OF OTHER COMPREHENSIVE RESULT
in period from 01.01.2018. to 31.12.2018.

(in RSD thousand)

Group of accounts, account	ITEM	ADP Code				Remark number	Current year	Preceding year
1	2	3				4	5	6
	PROFIT FOR THE PERIOD	2	0	0	1		8.145.182	8.117.368
	LOSS FOR THE PERIOD	2	0	0	2		-	-
820	Other result for the period **Components of other result that cannot be reclassified to profit or loss:** Increase of revaluation reserves against intangible assets and fixed assets	2	0	0	3		-	-
820	Decrease of revaluation reserves against intangible assets and fixed assets	2	0	0	4		-	-
822	Actuarial gains	2	0	0	5		53.387	24.648
822	Actuarial losses	2	0	0	6		-	-
821	Positive effects of the changes in the value of equity instruments that are valued at fair value through the other result	2	0	0	7		230.026	190.723
821	Negative effects of the changes in the value of equity instruments that are valued at fair value through the other result	2	0	0	8		-	-
825	Unrealized gains arising from risk-protection equity instruments that are valued at fair value through other result	2	0	0	9		-	-
825	Unrealized losses arising from risk-protection equity instruments that are valued at fair value through other result	2	0	1	0		-	-
825	Unrealized gains on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2	0	1	1		-	-
825	Unrealized losses on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2	0	1	2		-	-
825	Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	1	3		-	-
825	Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	1	4		-	-
823	**Components of other result that can be reclassified to profit or loss:** Positive effects of the changes in the value of debt instruments that are valued at fair value through other result	2	0	1	5		-	-
823	Negative effects of the changes in the value of debt instruments that are valued at fair value through other result	2	0	1	6		203.597	430.747

Group of accounts, account	ITEM	ADP Code				Remark number	Current year	Preceding year
1	2	3				4	5	6
824	Gains from hedging instruments in a cash flow hedge	2	0	1	7		-	-
824	Losses from hedging instruments in a cash flow hedge	2	0	1	8		-	-
826	Unrealized gains arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign operations	2	0	1	9		-	-
826	Unrealized losses arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign operations	2	0	2	0		-	-
826	Unrealized gains based on instruments designed to protect against the risks of net investment in foreign operations	2	0	2	1		-	-
826	Unrealized losses based on instruments designed to protect against the risks of net investment in foreign operations	2	0	2	2		-	-
826	Unrealized gains on other instruments designed to protect against risks	2	0	2	3		-	-
826	Unrealized losses on other instruments designed to protect against risks	2	0	2	4		-	-
826	Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	2	5		-	-
826	Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	2	6		-	-
82	Tax-related profit that pertains to other result for the period	2	0	2	7		34.066	64.612
82	Tax-related loss that pertains to other result for the period	2	0	2	8		42.512	114.043
	Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 -2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2	0	2	9		**71.370**	-
	Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 -2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) < 0	2	0	3	0		-	**264.807**
	TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2	0	3	1		**8.216.552**	**7.852.561**
	TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2	0	3	2		-	-
	Total positive result for the period that pertains to parent entity	2	0	3	3		-	-
	Total positive result for the period that pertains to owners without control rights	2	0	3	4		-	-
	Total negative result for the period that pertains to parent entity	2	0	3	5		-	-
	Total negative result for the period that pertains to owners without control rights	2	0	3	6		-	-

In Belgrade,

on 12.03.2019.

Legal representative of the Bank

To be filled out by the bank
Registration number : 0 7 7 3 7 0 6 8 Activity code: 6 4 1 9 Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD
Bank's registered seat : Beograd, 14, Svetog Save Street

CASH FLOW STATEMENT

in period from 01.01. to 31.12.2018.

(in RSD thousand)

ITEM		ADP code				Current year	Previous year
1		2				3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES							
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3	0	0	1	**22.365.620**	**23.708.278**
1.	Inflow from Interest	3	0	0	2	13.996.462	15.548.877
2.	Inflow from fees	3	0	0	3	7.214.624	6.685.133
3.	Inflow from other operating activities	3	0	0	4	1.146.009	1.465.131
4.	Inflow from dividends and profit sharing	3	0	0	5	8.525	9.137
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3	0	0	6	**12.986.403**	**14.476.414**
5.	Outflow from interest	3	0	0	7	947.520	2.077.828
6.	Outflow from fees	3	0	0	8	1.967.989	1.604.753
7.	Outflow from gross salaries, allowances and other personnel expenses	3	0	0	9	4.343.591	4.720.871
8.	Outflow from taxes, contributions and other levies charged against income	3	0	1	0	890.900	872.611
9.	Outflow from other operating expenses	3	0	1	1	4.836.403	5.200.351
III.	**Net cash inflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3	0	1	2	**9.379.217**	**9.231.864**
IV.	**Net cash outflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3	0	1	3	**-**	**-**
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3	0	1	4	**30.043.591**	**8.861.801**
10.	Decrease in loans and other receivables from banks and other financial institutions, central bank and customers	3	0	1	5	-	-
11.	Decrease in receivables from securities and other financial assets that are not intended for investment	3	0	1	6	699.138	8.861.801
12.	Decrease in receivables from derivatives held for hedging and change in fair value of items that are the subject to protection against risk	3	0	1	7	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial institutions, central banks and customers	3	0	1	8	29.344.453	-
14.	Increase of other financial liabilities	3	0	1	9	-	-
15.	Increase in liabilities from derivatives intended for protection against risk and change in fair value of items that are subject of hedging	3	0	2	0	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3	0	2	1	**4.396.653**	**18.262.489**
16.	Increase in loans and other receivables from banks and other financial institutions, central bank and customers	3	0	2	2	4.396.653	4.081.054
17.	Increase in receivables from securities and other financial assets that are not intended for investment	3	0	2	3	-	-
18.	Increase in receivables from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3	0	2	4	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial institutions, central bank and customers	3	0	2	5	-	14.181.435
20.	Decrease of other financial liabilities	3	0	2	6	-	-
21.	Decrease in liabilities from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3	0	2	7	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3	0	2	8	**35.026.155**	**-**
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3	0	2	9	**-**	**168.824**
22.	Profit tax paid	3	0	3	0	-	-
23.	Dividends paid	3	0	3	1	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3	0	3	2	**35.026.155**	**-**
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3	0	3	3	**-**	**168.824**

ITEM	ADP code				Current year	Previous year
1	2				3	4
B. CASH FLOWS FROM INVESTMENT ACTIVITIES						
I. Cash inflow from investment activities (from 3035 to 3039)	3	0	3	4	**42.094.231**	**54.583.075**
1. Inflow from long-term investment in securities	3	0	3	5	42.094.231	54.463.556
2. Inflow from sale of investments in subsidiaries and associates and joint ventures	3	0	3	6	-	-
3. Inflow from sale of intangible assets, property, plant and equipment	3	0	3	7	-	637
4. Inflow from sale of investment property	3	0	3	8	-	118.882
5. Other inflow from investment activities	3	0	3	9	-	-
II. Cash outflow from investment activities (from 3041 to 3045)	3	0	4	0	**58.424.017**	**51.054.260**
6. Outflow from investment in long-term securities	3	0	4	1	58.013.589	50.603.633
7. Outflow for purchase of investments in subsidiaries and associates and joint ventures	3	0	4	2	-	-
8. Outflow for purchase of intangible assets, property, plant and equipment	3	0	4	3	407.120	450.627
9. Outflow for purchase of investment property	3	0	4	4	-	-
10. Other outflow from investment activities	3	0	4	5	3.308	-
III. Net cash inflow from investment activities (3034 - 3040)	3	0	4	6	**-**	**3.528.815**
IV. Net cash outflow from investment activities (3040 - 3034)	3	0	4	7	**16.329.786**	**-**
V. CASH FLOWS FROM FINANCING ACTIVITIES						
I. Cash inflow from financing activities (from 3049 to 3054)	3	0	4	8	**84.792.124**	**87.369.782**
1. Inflow from capital increase	3	0	4	9	-	-
2. Inflow from subordinated liabilities	3	0	5	0	-	-
3. Inflow from borrowings	3	0	5	1	84.792.124	87.369.782
4. Inflow from issued securities	3	0	5	2	-	-
5. Inflow from sale of own shares	3	0	5	3	-	-
6. Other inflow from financing activities	3	0	5	4	-	-
II. Cash outflow from financing activities (from 3056 to 3060)	3	0	5	5	**89.475.977**	**98.614.492**
7. Outflow from purchase of own shares	3	0	5	6	-	-
8. Outflow from subordinated liabilities	3	0	5	7	-	5.923.635
9. Outflow from borrowings	3	0	5	8	89.475.977	92.690.857
10. Outflow from issued securities	3	0	5	9	-	-
11. Other outflow from financing activities	3	0	6	0	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3	0	6	1	**-**	**-**
IV. Net cash outflow from financing activities (3055 - 3048)	3	0	6	2	**4.683.853**	**11.244.710**
Г. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3	0	6	3	179.295.566	174.522.936
Д. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3	0	6	4	165.283.050	182.407.655
Ђ. NET INCREASE IN CASH (3063 - 3064)	3	0	6	5	**14.012.516**	**-**
Е. NET DECREASE IN CASH (3064 - 3063)	3	0	6	6	**-**	**7.884.719**
Ж. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3	0	6	7	**26.314.898**	**34.945.610**
З. FOREIGN EXCHANGE GAINS	3	0	6	8	48.334	-
И. FOREIGN EXCHANGE LOSSES	3	0	6	9	-	745.993
J. CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3	0	7	0	**40.375.748**	**26.314.898**

In Belgrade,
on 12.03.2019.

Legal representative of the bank

To be filled out by Bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	TIN: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

STATEMENT OF CHANGES IN EQUITY
Over the period from 01.01. to 31.12.2018.

(in RSD thousand)

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803,809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Minoriy interest	ADP code	Total (column 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (column 3+4+5+6-7+8-9+10)<0
	1		2		3		4		5		6		7		8		9		10		11		12
1.	**Opening balance as of January 1st of preceding year**	4001	17.191.466	4033		4065	22.843.084	4097	18.791.828	4129	4.316.496	4147	5.087	4165	349.698	4203	8.063.183	4241		4285	55.424.302	4291	-
2.	Effects of first aplication of new IFRS – increase	4002		4034		4066		4098		4130		4148		4166		4204		4242		x	x	x	x
3.	Effects of first aplication of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4205		4243		x	x	x	x
4.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244		x	x	x	x
5.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245		x	x	x	x
6.	**Adjusted opening balance as of January 1st of preceding year (number 1+2-3+4-5)**	4006	17.191.466	4038	0	4070	22.843.084	4102	18.791.828	4134	4.316.496	4152	5.087	4170	349.698	4208	8.063.183	4246		4286	55.424.302	4292	-
7.	Total positive other comprehensive result for the period	x	x	x	x	x	x	x	x	4135		4153	1.549	x	x	x	x	4247		x	x	x	x
8.	Total negative other comprehensive result for the period	x	x	x	x	x	x	x	x	4136	286.237	4154		x	x	x	x	4248		x	x	x	x
9.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4171	8.117.368	x	x	4249		x	x	x	x
10.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4209		4250		x	x	x	x
11.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4172		4210		4251		x	x	x	x
12.	Transfer from reserves to result due to release of reserves - decrease	x	x	x	x	x	x	x	x	x	x	x	x	4173		4211		4252		x	x	x	x
13.	Transactions with owners, recorded directly in equity – increase	4007		4039		4071		4103		x	x	x	x	4174		4212		4253		x	x	x	x
14.	Transactions with owners, recorded directly in equity – decrease	4008		4040		4072		4104		x	x	x	x	4175		4213		4254		x	x	x	x
15.	Profit distribution – increase	4009		4041		4073		4105		x	x	x	x	4176		4214		4255		x	x	x	x
16.	Profit distribution, and/or loss coverage – decrease	4010		4042		4074		4106	7.730.293	x	x	x	x	4177	332.890	4215	8.063.183	4256		x	x	x	x
17.	Dividend payments	4011		4043		4075		4107		x	x	x	x	4178	16.808	4216		4257		x	x	x	x
18.	Other – increase	4012		4044		4076		4108		x	x	x	x	4179	19.881	4217		4258		x	x	x	x
19.	Other – decrease	4013		4045		4077		4109		x	x	x	x	4180		4218		4259		x	x	x	x
20.	**Total transactions with owners (number 13-14+15-16-17+18-19) ≥ 0**	4014	0	4046	0	4078	0	4110	0	x	x	x	x	4181	0	4219	0	4260		x	x	x	x
21.	**Total transactions with owners (number 13-14+15-16-17+18-19) < 0**	4015	0	4047	0	4079	0	4111	7.730.293	x	x	x	x	4182	329.817	4220	8.063.183	4261		x	x	x	x
22.	**Balance as of December 31st of preceding year (number 6+7-8+9-10+11-12+20-21 for columns from 2,3,4,5,6,8,9), for column 7 (number 6+8-7)**	4016	17.191.466	4048	0	4080	22.843.084	4112	11.061.535	4137	4.030.259	4155	3.538	4183	8.137.249	4221	0	4262		4287	63.260.055	4293	-

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803,809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Minoriy interest	ADP code	Total (column 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (column 3+4+5+6-7+8-9)+10<0
	1		2		3		4		5		6		7		8		9		10		11		12
23.	**Opening balance as of January 1st of the current year**	4017	17.191.466	4049		4081	22.843.084	4113	11.061.535	4138	4.030.259	4156	3.538	4184	8.137.249	4222	0	4263		4288	63.260.055	4294	-
24.	Effects of first aplication of new IFRS – increase	4018		4050		4082		4114		4139	176.617	4157		4185		4223		4264		x	x	x	x
25.	Effects of first aplication of new IFRS – decrease	4019		4051		4083		4115		4140		4158	3.538	4186	1.161.693	4224		4265		x	x	x	x
26.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266		x	x	x	x
27.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267		x	x	x	x
28.	**Adjusted opening balance as of January 1st of the current year (number 21+22-23)**	4022	17.191.466	4054	0	4086	22.843.084	4118	11.061.535	4143	4.206.876	4161	0	4189	6.975.556	4227	0	4268		4289	62.278.517	4295	-
29.	Total positive other comprehensive result for the period	x	x	x	x	x	x	x	x	4144	47.861	4162		x	x	x	x	4269		x	x	x	x
30.	Total negative other comprehensive result for the period	x	x	x	x	x	x	x	x	4145		4163		x	x	x	x	4270		x	x	x	x
31.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4190	8.145.182	x	x	4271		x	x	x	x
32.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228		4272		x	x	x	x
33.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191		4229		4273		x	x	x	x
34.	Transfer from reserves to result due to release of reserves – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192		4230		4274		x	x	x	x
35.	Transactions with owners, recorded directly in equity – increase	4023		4055		4087		4119		x	x	x	x	4193		4231		4275		x	x	x	x
36.	Transactions with owners, recorded directly in equity – decrease	4024		4056		4088		4120		x	x	x	x	4194		4232		4276		x	x	x	x
37.	Profit distribution – increase	4025		4057		4089		4121	3.162.000	x	x	x	x	4195		4233		4277		x	x	x	x
38.	Profit distribution, and/or loss coverage – decrease	4026		4058		4090		4122		x	x	x	x	4196	3.162.000	4234		4278		x	x	x	x
39.	Dividend payments	4027		4059		4091		4123		x	x	x	x	4197	2.535.916	4235		4279		x	x	x	x
40.	Other – increase	4028		4060		4092		4124		x	x	x	x	4198	23.509	4236		4280		x	x	x	x
41.	Other – decrease	4029		4061		4093		4125		x	x	x	x	4199	398.640	4237		4281		x	x	x	x
42.	**Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0**	4030	0	4062	0	4094	0	4126	3.162.000	x	x	x	x	4200	0	4238	0	4282		x	x	x	x
43.	**Total transactions with owners (number 31-32+33-34-35+36- 37) < 0**	4031	0	4063	0	4095	0	4127	0	x	x	x	x	4201	6.073.047	4239	0	4283		x	x	x	x
44.	**Balance as of December 31st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)**	4032	17.191.466	4064	0	4096	22.843.084	4128	14.223.535	4146	4.254.737	4164	0	4202	9.047.691	4240	0	4284		4290	67.560.513	4296	-

In Belgrade,

on 12.03.2019.

Legal representative of the Bank

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2018

Belgrade, March 2019

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

1. BANK'S ESTABLISHMENT AND ACTIVITY

Komercijalna Banka a.d., Beograd (hereinafter the "Bank"), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991 and later registered with the Serbian Business Registers Agency on April, 14 2006. The Bank was issued its operating license by the National Bank of Yugoslavia on July 3, 1991.

The principal holders of voting shares in the Bank are as follows:

Republic of Serbia	41.75%
EBRD, London	24.43%

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations in the country and abroad.

As of December 31, 2018, the Bank was comprised of the Head Office in Belgrade at the address of no. 14, Svetog Save St., 6 business centers, 3 sectors to work with small and medium enterprises, 1 branch and 201 sub-branches in the territory of the Republic of Serbia (December 31, 2017: 6 business centers, 5 business and corporate centers, 1 branch and 203 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2018, the Bank had 2,766 employees (December 31, 2017: 2,806 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2018 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The accompanying financial statements represent the Bank's unconsolidated (separate) financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

New and revised standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of Financial Statements of Banks (Official Gazette of RS nos. 71/2014, 135/2014, 103/2018).

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

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

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

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

2.2. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2018:

- **IFRS 9 Financial Instruments**

  The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. For detailed information on the effects and disclosures please see the Notes 4.1 and 4.1.1.

- **IFRS 15 Revenue from Contracts with Customers**

  IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

  The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.2. Changes in accounting policy and disclosures

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. It is not expected that the requirements of this interpretation will have significant effect on Bank's financial statements.

  The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. It is not expected that the requirements of these improvements will have significant effect on Bank's financial statements.

  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

IFRS 16 is released in January 2016. year and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 evaluation of the substance of transactions involving the legal form of rent. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leasing and requires tenants to calculated all leases within one model similar to the accounting for financial leasing according to IAS 17. Standard includes two exemptions from recognition for leasees – leases of "low-value assets" (e.g. Personal computers) and short term leases (i.e. leases with lease term of 12 months or less). On the start date of the lease, the lessee will acknowledge the obligation for payment of leases (i.e. the obligation for leasing) and asset is the right to use the asset over the life of the lease (i.e. the right to use the funds). The lessee will be required to separately recognised cost interest on obligation of leasing and the cost at which the right to the use of the funds.

Accounting for leasors under IFRS 16 has remained essentially unchanged in comparison to the accounting under IAS 17. Leasors will continue to classify all contracts using the same principle as a classification according to IAS 17 and distinguish between two kinds of leases: operating and financial leasing.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requests more detailed disclosures from the lessee and the leasor than IAS17 requested.

Transition to IFRS16

The Bank has made the transition to IFRS 16 in accordance with the modified retrospective approach. Comparative data from previous years are not corrected.

The Bank has chosen to use excepcions, which are the proposed by the standard for the contracts for which the lease ends within 12 months from the date of the initial application, as well as the contracts for which the underlying asset can be considered a low-value assets. The Bank has agreements to lease certain office equipment, printing and photocopying devieces which are classified as low-value assets.

The following categories of leases have been identified as a result of transition to IFRS 16 from 1 January 2019, that were previously recognized as an operating lease, leases now qualify as defined per standard: real estate, technical equipment and vehicles. At the first-time adoption, right of use of leased assets is generally measured using average incremental borrowing rate that varies from 0.3324% to 2.4310% for EUR and 2.8660% to 4.1253% for RSD contracts. The first time adoption resulted in recognition of lease liabilities in total of RSD 1,349,455 thousand and, accordingly, right of use of assets in balance sheet as of 1 January 2019 in the preliminary amount of RSD 1,349,455 thousand.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

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

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that this interpretation will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **Conceptual Framework in IFRS standards**

  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements.

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

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that these amendments will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements.

    - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

    - ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

    - ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Due to the implementation of IFRS 9, NBS has modified the regulations regarding compiling and presenting the financial statements for the period January – December 2018, so banks were obliged to implement new forms of financial statements with valid starting from 1 January 2018.

Banks were required to accommodate data from the past year to new structure without modifying financial data.

In the preparation of financial statements for 2018 the Bank implemented a new accounting policy in the area of financial instruments and enabling the allocation of credit losses on all accounting periods in which results from use of assets are generated, which is the assumption for determining exact result.

(a) Consolidation

The Bank has control over the following legal entities, which are not consolidated into these financial statements:

Legal Entity	Equity Interest
Komercijalna banka a.d. Budva, Montenegro	100%
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	99.99%
Investment Fund Management Company KomBank Invest a.d. Beograd, Serbia	100%

The Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's separate financial statements, investments in subsidiaries are measured at cost.

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into RSD at the spot middle exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Exchange rates for major currencies used in the translation of the statement of financial position items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

In RSD

	2018	2017
USD	103.3893	99.1155
EUR	118.1946	118.4727
CHF	104.9779	101.2847
JPY	0.9366	0.8791

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received 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 liability.

Interest income from non-performing loans is recognized at the net principle, reducing the gross interest accrued by the impairment allowance amount, i.e. the amount that is likely not to be collected.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and Commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission income are properly recognized and accepted as income in the adequate period.

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Net gains arising on the fair value measurement of financial instruments

Net gains arising on the fair value measurement of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gain on the derecognition of financial instruments at fair value

Net gain on derecognition of financial instruments at fair value refers to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

g) Dividends

Income from dividends is recognized at the moment of economic benefits inflow arising from dividends. Dividends are reported under other income.

(h) Operating and Finance Lease Payments

Payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred Income Tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they write-off, based on the laws that have been enacted by the reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected amount of deferred tax liabilities or assets.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under “Other operating expenses”.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial asset

A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right to receive cash or another financial asset from another entity; or
- a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments

Financial liability

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity; or
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

Principles of valuation of financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

The Bank assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports. The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.The business model determines whether cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation. Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist exclusively of principal and interest payments on the remaining principal (SPPI criterion).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Financial assets can be classified into the following categories:

- financial assets valued at amortized cost (AC)
- financial assets valued at fair value through profit and loss account (FVTPL)
- financial assets valued at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):
    - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
    - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
    - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- **Financial derivatives** that include forward and swap transactions.

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.
According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Equity instruments in subsidiaries that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- The goal of a business model of holding a financial asset is the collection of contracted cash flows and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

IFRS requires that all financial assets, other than derivatives and equity instruments, be analysed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other Other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank defined the criteria for classifying financial instruments into stages 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Segment 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

Stage 2

All financial instruments for which credit risk has significantly increased are classified in Segment 2 and impairment allowance are calculated on the basis of expected losses for the entire life of the instrument (lifetime ECL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

The Bank is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be a delay of 31 to 90 days, customer restructuring, and clients on the watch list.

Stage 3
Similarly as in accordance with IAS 39, financial instruments are included in Stage 3, where there is objective evidence of impairment and there is no change in the coverage of loans classified in that segment, with the introduction of multiple collection scenarios. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings account. The Bank will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Bank will recognize differences in the carrying amounts of financial assets that arise from the application of IFRS 9 within equity as at 1 January 2018.

(iii) De-recognition

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

in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) De-recognition(continued)

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.
Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(k) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

(l) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Following initial recognition items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Following initial recognition, property is measured at valuation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuation is performed regularly in order to ensure that net book value does not differ significantly from reported amounts that would result from using the fair value approach at the end of reporting period.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Property and Equipment(continued)

(ii) Subsequent Costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated depreciation rates for the current and comparative periods were as follows:

Asset	**Estimated useful life (in years)**	**Rate %**
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Leasehold improvements	1 – 23.5	4.25%-86.20%

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Maintenance costs for assets are recognized in the profit or loss in the period when occurred.

(m) Intangible Assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses.

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 10 years and amortization rates used range between 10.00% and 33.34%.

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(lj) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost of acquired investment property comprises the purchase price and all expenses that can be directly attributed to the acquisition of the asset.

For subsequent measurement of investment property the Bank uses the cost model, such that investment property is measured at cost less accumulated depreciation and impairment losses.

Estimated useful life of investment property amounts to 40 years, while the depreciation rate used amounts to 2.5%. Depreciation is provided for in profit or loss on a straight line basis over the useful life of a given item of property, given that it reflects best the expected exploitation of the useful economic value embodied in the asset.

(n) Leases

In 2018, the Bank has classified its contracts for lease of property and equipment according to IFRS 17, that was implemented as of 31 Decemebr 2018. Rules of classification of contracts according to IFRS 16 Bank will apply starting with the January 2019. IFRS 16 defines the initial recognition, test of and disclosure of leasing for both parties to the contract, or for a recipient and a donor of leasing. In more detail in note 2.3. standards issued but not yet entered into force and are not early adopted.

The Bank is a lessee based on leasing agreements. The Bank classifies leases as financial leasing when the lease agreement stipulates that the basic risks and benefits of ownership over the leased assets are transferred to the lessee. All other leasing agreements are classified as operating leases.

Lease agreements that relate to lease of office space in which the Bank's branches are located primarily relate to operating leases. All payments made during the year based on operating leases are reported as an expense in the statement of comprehensive income on a straight line basis over the duration of the lease period.

Assets that are held based on a finance lease agreement are recognized as the Bank's assets at the lower of their fair value or the present value of minimum lease payments specified at the start of the lease agreement. The corresponding liability toward the lessor is reported in the statement of financial position as a finance lease liability. Lease payments are apportioned between the finance expense and the reduction of the outstanding finance lease liability, such that a constant interest rate is achieved on the outstanding portion of the liability. The financial expense is reported directly as a period expense.

(o) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment of Non-Financial Assets (continued)

The recoverable amount of an asset is the greater of its value in use and its fair value. In assessing value in use, the estimated future cash flows are 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.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, borrowings and subordinated liabilities are the Bank's main sources of financing.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities, borrowings and subordinated liabilities are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

(r) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(s) Employment Benefits

In accordance with regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

In accordance with the Labor Law, the Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2018 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36(b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

(u) Capital and Reserves

The Bank's equity consists of founders' capital, shares of subsequent issues, share premium, profit reserves, revaluation reserves and unrealized losses on available for sale securities, retained earnings and current period result.
The Bank's equity is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(v) Earnings per Share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for the effects of preferred convertible shares and dividing the adjusted amount by the weighted average number of ordinary shares outstanding during the period.

(dj) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank discloses information on performance of segments, thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities.

Upon determining operating segments, the Bank uses the following:

a) different products and services offered by the segments
b) separate segment management, and
c) internal reporting structure.

4. RISK MANAGEMENT

The Bank has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment. Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the 2018 (grouping of branches into Business centers, changes in the function of economy and population, changes in decision making), as well as changes of internal acts which regulates risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of problematic receivables and exposures to one person or a group of related parties has improved.

At the beginning of 2018, the Bank has carried out reconciliation of internal documents (methodology and procedures) in accordance with changes to the regulations of the National Bank of Serbia from the field of accounting and financial reporting, which introduces the obligation of applying the International standards of the financial 9 reporting in banks (IFRS 9). The specified changes to the prescribed obligations to banks of 1 January 2018 calculation made in accordance with IFRS 9. In accordance with IFRS 9, the Bank adopted a new Methodology for estimating impairment of on-balance assets and expected credit losses for off balance items that applies from 1 January 2018.

Risk Management System

The risk management system is governed by the following internal enactments:

- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other enactments.

Risk Management Strategy sets out:

- Long-term objectives, defined by the Bank's business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk undertaking and management;
- Basic principles of the process of internal assessment of the Bank's capital adequacy;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.
The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

4. RISK MANAGEMENT (continued)

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Committee) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

4. RISK MANAGEMENT (continued)

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

Types of Risk

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, investment risk, exposure risk and country risk as well as to all other risks that may arise from the Bank's regular operations.

4.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank.

The Bank has defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodology.

Prior to loan approval, the Bank assesses the creditworthiness of the borrower based on internally defined criteria as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the Bank's competent bodies enact a loan approval decision in accordance with the defined decision making system.

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

In decision making the principle of double control, the so-called “four eyes principle,” is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

For loans contracted in foreign currencies or RSD loans indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor’s cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Bank as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Bank has also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

Credit Risk Management

In accordance with the scope, type and complexity of the operations it performs, the Bank has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank’s portfolio structure based on which is limited negative effects on the Bank’s financial result and capital adequacy.
The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Bank’s entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Bank’s financial result and capital;
- Loan rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

The Bank performs quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on measuring risk level of individual loans and investments based on the internally adopted rating system.

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. In December 2018, in accordance with the amendments to the regulations of the National Bank of Serbia, adopted the amending regulations that from 01.01.2019. year confirms cancellation of reserves calculation for the estimated losses and the necessary reserves.

Alleviating credit risk entails maintaining the risk at the level acceptable to the Bank's risk profile, i.e. maintaining acceptable quality level of the Bank's loan portfolio.

Basic credit risk alleviating techniques are:

• Exposure Limits - concentration risk,
• Diversification of investments,
• Security instruments.

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's creditworthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Bank), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1st.2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to households of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating court proceedings and other measures.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Bank initiates reversal of the remaining receivables, or transfer from the balance sheet to off balance sheet.

In accordance with the regulations of the National Bank of Serbia (Decision on accounting reverse of the balance sheet assets of the bank), as well as amendments to the legislation related to tax treatment, in 2017, the Bank made a reverse of all impaired receivables by transfer from balance sheet to off-balance sheet records. The result was a reduction in gross loans and value adjustments in the balance sheet, and consequently a decrease in NPL indicators.

Apart from credit risk exposure, the Bank also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Bank has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures that are used for credit risk.

Credit risk reporting includes internal and external reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system.

IFRS 9 financial instruments

Starting from 1 January 2018, the Bank applies IFRS 9 standard that has replaced IAS 39 standard. In accordance with IFRS 9 standard financial assets can be classified and evaluated as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criteria;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Bank's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income, with a reclassification of profit and loss through the income statement.

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims

The Bank monitors the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are monitored on a regular time basis and based on analysis of those signs, customers are classified into the category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Bank also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Clients located in stages 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfillment of the criteria of material significance, are impaired individually. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios. Restructured unproblematic clients are classified as potentially risky clients, that is, to stage 2 of impairment, while restructured problematic are classified as problematic clients, and are categorized into stage 3 impairment.The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements,ie mitigating and reducing credit risk through the implementation of an adequate strategy and action plans.

Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have days past due more than 90 days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the borrower will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. Problematic receivables are all receivables from the debtor, if one receivalbe is classified as problematic receivable.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Restructuring of receivable is the approval, due to the financial difficulties of the borrower, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favorable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice "forbearance". In addition, the category of restructured receivables also includes receivables in which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Bank has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Bank (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

In accordance with implementing IFRS 9 standard, any restructuring of claims due to financial difficulties is considered to be modified or changed financial asset.

Modifications that cause the derecognition of the old financial assets and initial recognition of the new, and that they were motivated by a drop in the credit standing and repayment capacity, lead to initial recognition financial assets that standard defined as "POCI", ie. funds that are impairment at the time of initial recognition, and are initially valued at fair value. They do not have at the time of initial recognition impairment, but you must include the expected credit losses during lifetime assets in the calculation of effective interest rates.

Consequently, the Bank includes an initial expected credit losses in estimating cash flows, when Bank calculate a credit-adjusted effective interest rates of financial assets that are considered to be impairment at the time of initial recognition. Also, for purposes of calculation of impairment, this means going for the whole period of duration stay in level 3.

IFRS 9 in the event of a significant modification of a financial instrument, indicates the need to derecognise an old financial asset and recognise the new one at fair value at the date of recognition.
Termination of recognition leads to a sustained gain or loss recognized in the income statement and an equal difference between the amortized value of an old financial asset and the fair value of a new financial asset minus the amount of expected loan losses recognized as impairment on a new financial asset.

The Bank regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the Bank of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not greater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

Risk of asset quality change - asset delinquency

The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans.
The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4d, 4dd, and 5). Risk Category 4 is divided into three sub-categories: 4 - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties) , the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets. The bank assess the impairment of receivables on a group and on a individual basis.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Individual and Group Assessment at Stage 3

The bank estimates impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), ie placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfillment of the client's obligations towards the members of the bsnk, a new assessment of the impairment of the placements is made.

The materiality threshold of a member of the bank is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment loss on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank , due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watchlist process, information on the increased level of risk of the borrower.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables that are located at stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

The bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of future expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Bank's members and other exposures with a credit risk weight of 0, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses amount to 0.

All financial instruments in which credit risk exacerbation has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument.

The bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).

The bank calculates the cost of impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

For the corporate and retail sectors, the Bank calculates the expected credit losses (impairment) in the following way:

$$\boldsymbol{ECL = \sum_{t=1}^{T}(EAD_t * MPD_t * LGD_t * DF_t)}$$

- ECL Expected credit loss
- EAD Exposure at default
- MPD Marginal Probability of default
- LGD Loss given default)
- DF EIR based discount factor

This formula is used to calculate the expected credit losses (impairments) at stages 1 and 2, along with respect to the time horizon.

EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.
For the calculation of EAD for stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-fullfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfill obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

To calculate impairment for Stage 1, the Bank uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, ie the probability of default for the entire life of the financial instrument.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31 December.
LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - **DF** for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Bank. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure towards securities issued by the Goverment and its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate * t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liabilitiy and the borrower is classified at stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members.

For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the bank does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Bank members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Bank provides contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For household loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, members of the Bank require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Bank, and the policies are vinkulated for the benefit of the Bank.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Bank protects against potential losses due to inability to collect collateral from collateral.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the bank pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Bank (realized sales, supply and demand) by the regions specified in the collateral catalog, using the statistical model, etc. For all business real estate, the Bank conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The value of collateral and the trend of movement is monitored and updated by the members of the bank in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

The total exposure to credit risk as at 31 December 2018 and 2017 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

	In thousands of RSD			
	31.12.2018		**31.12.2017**	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**427,668,873**	**401,165,980**	**399,678,901**	**369,183,538**
Cash and balances with the central bank	63,595,710	63,595,710	49,840,887	49,840,887
Loans and advances to banks and other financial institutions	18,705,766	18,477,729	29,746,347	29,543,789
Loans and receivables from customers	181,694,980	167,545,674	171,931,966	153,897,367
Financial assets (securities and derivatives)	133,183,262	133,181,667	117,288,770	117,288,767
Other assets	8,657,056	6,612,268	9,347,623	6,798,506
Non monetary assets	21,832,099	11,752,932	21,523,308	11,814,222
II. Off-balance sheet items	**42,261,680**	**41,986,725**	**34,284,701**	**34,160,309**
Payable guarantees	3,107,502	3,037,138	3,443,746	3,416,712
Performance guarantees	3,004,569	2,962,498	4,349,152	4,320,139
Irrevocable liabilities	35,783,262	35,646,780	26,194,257	26,149,893
Other	366,347	340,309	297,546	273,565
Total (I+II)	**469,930,553**	**443,152,705**	**433,963,602**	**403,343,847**

Starting from 1 January 2018 The Bank applies IFRS 9 that replaced IAS 39. Data for 2017 are presented in accordance with the then-applicable IAS 39, and are not comparable with information published for 2018. The differences arising from the application of IFRS 9 are directly recognized through retained earnings as of 1 January 2018. In accordance with the aforementioned, the effects of the first application of IFRS 9 are presented as of 1 Januray 2018.

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Total exposure to credit risk – transition to IFRS 9

	IAS 39 31.12.2017				IFRS 9 01.01.2018			
	Category	**Gross**	**Net**	**Reclassified**	**Impairment allowance**	**Gross**	**Net**	**Category**
I, Assets		**282,390,131**	**251,894,771**	**-**	**(852,566)**	**282,390,131**	**251,042,205**	
Cash and balances with the central bank	L&R[1]	49,840,887	49,840,887	-	-	49,840,887	49,840,887	AC[2]
Loans and advances to banks and other financial institutions	L&R	29,746,347	29,543,789	-	(25,260)	29,746,347	29,518,529	AC
Loans and receivables from customers	L&R	171,931,966	153,897,367	-	(752,052)	171,931,966	153,145,315	AC
Financial assets (securities and derivatives)	L&R	9,347,623	6,798,506	-	(75,254)	9,347,623	6,723,252	AC
Other assets	-	21,523,308	11,814,222	-	-	21,523,308	11,814,222	-
II, Off-balance sheet items		**34,284,701**	**34,160,309**	**-**	**(95,359)**	**34,284,701**	**34,064,951**	
Payable guarantees	L&R	3,443,746	3,416,712	-	(62,424)	3,443,746	3,354,288	AC
Performance guarantees	L&R	4,349,152	4,320,139	-	1,681	4,349,152	4,321,820	AC
Irrevocable liabilities	L&R	26,194,257	26,149,893	-	(38,171)	26,194,257	26,111,723	AC
Other	L&R	297,546	273,565	-	3,555	297,546	277,120	AC
III Financial assets available for sale	**AFS[3]**	**112,019,061**	**112,019,058**	(112,019,058)	-	-	-	-
Reclassified in: Financial assets at fair value through other comprehensive income[6]	-	-	-	**112,019,058**	**(213,775)**	**112,019,061**	**111,805,286**	**FVOCI[4]**
IV Financial assets at fair value through profit and loss held for trading	**FVPL[5]**	**5,269,709**	**5,269,709**	(5,269,709)	**-**			-
Reclassified in: Financial assets at fair value through profit and loss	-	-	-	**5,269,709**	**-**	**5,269,709**	**5,269,709**	**FVPL**
Total (I+II+III+IV)		**433,963,602**	**403,343,847**	**117,288,767**	**(1,161,700)**	**433,963,602**	**402,182,151**	

L&R[1]– *loans and receivables according to the classification of IAS 39*
AC[2] – *amortised cost according to the classification of IFRS9*
AFS[3] – *items available for sale according to the classification of IAS 39*
FVOCI[4] – *items that are valued at fair value through other comprehensive income according to the classification of IFRS9*
FVPL[5]– *items that are valued at fair value thorough profit and loss held for trading according to the classification of IAS 39, that is items that are valued at fair value thorough profit and loss according to the classification of IFRS9*
[6]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

First adoption of IFRS 9 – effect of impairment allowance

In RSD thousand

	Impairment allowance		
	31.12.2017	IFRS 9	01.01.2018
I. Assets	**30,495,363**	**1,066,341**	**31,561,704**
Cash and balances with the central bank	-	-	-
Loans and advances to banks and other financial institutions	202.558	25,260	227,818
Loans and receivables from customers	18,034,599	752,052	18,786,651
Financial assets (securities and derivatives)[1]	3	213,775	213,778
Other assets	2,549,117	75,254	2,624,371
Assets	9,709,086	-	9,709,086
II. Off-balance sheet items	**124,392**	**95,359**	**219,751**
Payable guarantees	27,034	62,424	89,458
Performance guarantees	29,013	(1,681)	27,332
Irrevocable liabilities	44,364	38,171	82,535
Other	23,981	(3,555)	20,426
Total (I+II)	**30,619,755**	**1,161,700**	**31,781,455**

[1]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

All financial assets are in Stage 1 and relate mostly to Securities issued by the Republic of Serbia, as well as to currency swaps transactions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	**141,744,316**	**4,273,282**	**25,914,368**	**171,931,966**
New receivables	30,289,914	137,022	- -	30,426,936
Decrease/collection of receivables	(14,588,864)	(1,821,871)	(6,065,346)	(22,476,081)
Transfer to stage 1	-	(1,010,298)	(154,256)	(1,164,554)
Transfer to stage 2	(2,272,287)	-	(50,587)	(2,322,874)
Transfer to stage 3	(1,255,531)	(233,550)	-	(1,489,081)
Tranfer from other stages	1,164,554	2,322,874	1,489,081	4,976,509
Other changes	3,785,376	(336,907)	(1,636,310)	1,812,159
31.12.2018	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**

Changes in impairment allowance of loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	**1,253,478**	**96,827**	**17,436,346**	**18,786,651**
New receivables	303,940	6,183	-	310,123
Decrease/collection of receivables	(359,577)	(36,051)	(4,831,938)	(5,227,566)
Transfer to stage 1	-	(21,220)	(88,880)	(110,100)
Transfer to stage 2	(28,386)	-	(25,372)	(53,758)
Transfer to stage 3	(25,805)	(15,024)	-	(40,829)
Tranfer from other stages	110,100	53,758	40,829	204,687
Other changes	(217,503)	163,209	334,393	280,099
31.12.2018	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**

During 2018, transitions of exposures by stages are consequence of regular business changes:

- transition to Stage 1 from Stages 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2017, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stages 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, stage 1 receivables were at Stage 2 before they went into Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In(000) RSD

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	37,397,786	654,204	1,521,937	39,573,927	32,149	18,803	722,406	773,358	38,800,570
Cash Loans	30,038,802	289,400	226,782	30,554,984	98,846	13,125	153,963	265,933	30,289,051
Agricultural Loans	8,357,877	91,169	263,341	8,712,387	60,893	3,809	138,525	203,227	8,509,160
Other Loans	5,193,080	56,258	179,373	5,428,711	31,736	1,384	167,551	200,671	5,228,039
Micro Business	8,694,031	115,982	656,885	9,466,898	120,679	4,018	317,218	441,915	9,024,982
Total retail	**89,681,576**	**1,207,013**	**2,848,318**	**93,736,907**	**344,303**	**41,139**	**1,499,663**	**1,885,105**	**91,851,802**
Large corporate clients	33,953,918	1,658,522	11,595,741	47,208,181	310,263	197,878	7,901,653	8,409,794	38,798,387
Middle corporate clients	6,995,710	211,590	1,935,944	9,143,244	67,366	3,164	1,287,520	1,358,050	7,785,194
Small corporate clients	3,458,723	121,341	1,207,560	4,787,624	36,736	631	632,196	669,563	4,118,060
State owned clients	12,989,199	132,086	503,850	13,625,135	86,779	4,870	139,220	230,869	13,394,267
Other	11,788,352	-	1,405,537	13,193,890	190,800	-	1,405,126	1,595,926	11,597,963
Total corporate	**69,185,902**	**2,123,539**	**16,648,632**	**87,958,073**	**691,944**	**206,543**	**11,365,715**	**12,264,202**	**75,693,871**
Total	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**	**167,545,673**
Due from banks	**18,494,474**	**-**	**211,292**	**18,705,766**	**16,745**	**-**	**211,292**	**228,037**	**18,477,729**

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In(000) RSD

01.01.2018.	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	35,368,842	577,246	1,532,194	37,478,282	35,519	26,327	809,034	870,880	36,607,402
Cash Loans	24,079,084	207,124	302,978	24,589,186	86,943	13,841	246,184	346,968	24,242,218
Agricultural Loans	7,050,263	103,287	205,882	7,359,432	64,279	7,081	108,851	180,211	7,179,221
Other Loans	5,307,149	45,933	383,881	5,736,963	27,892	1,254	365,311	394,457	5,342,506
Micro Business	7,624,833	79,865	697,866	8,402,564	109,126	564	281,635	391,325	8,011,239
Total retail	**79,430,171**	**1,013,455**	**3,122,801**	**83,566,427**	**323,759**	**49,067**	**1,811,015**	**2,183,841**	**81,382,586**
Large corporate clients	33,674,709	1,726,074	16,940,157	52,340,940	594,751	37,386	12,015,302	12,647,439	39,693,501
Middle corporate clients	8,900,885	875,199	2,037,738	11,813,822	84,539	3,779	1,302,482	1,390,800	10,423,022
Small corporate clients	3,683,113	296,786	1,378,923	5,358,822	34,942	1,724	698,416	735,082	4,623,740
State owned clients	9,225,459	361,768	997,190	10,584,417	69,619	4,871	170,041	244,531	10,339,886
Other	6,829,979	-	1,437,559	8,267,538	145,868	-	1,439,090	1,584,958	6,682,580
Total corporate	**62,314,145**	3,259,827	22,791,567	88,365,539	929,719	**47,760**	**15,625,331**	16,602,810	71,762,729
Total	**141,744,316**	**4,273,282**	**25,914,368**	**171,931,966**	**1,253,478**	**96,827**	**17,436,346**	**18,786,651**	**153,145,315**
Due from banks	**29,543,789**	**-**	**202,558**	**29,746,347**	**2,526**	**-**	**202,558**	**227,818**	**29,518,529**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations

In (000) RSD

31.12.2017.	Nonproblematic receivables	Non-performing receivables	Total	Impairment of Nonproblematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	35,946,088	1,532,193	37,478,281	94,115	520,302	614,417	36,863,864
Cash Loans	24,286,208	302,978	24,589,186	200,232	229,834	430,066	24,159,120
Agricultural Loans	7,153,549	205,883	7,359,432	61,549	100,090	161,639	7,197,793
Other Loans	5,353,083	383,880	5,736,963	76,780	372,548	449,328	5,287,635
Micro Business	7,704,698	697,867	8,402,565	100,490	289,855	390,345	8,012,220
Total Retail	**80,443,626**	**3,122,801**	**83,566,427**	**533,166**	**1,512,629**	**2,045,795**	**81,520,632**
Large corporate clients	35,400,783	16,940,157	52,340,940	260,084	11,881,024	12,141,108	40,199,832
Middle corporate clients	9,776,084	2,037,738	11,813,822	54,739	1,349,336	1,404,075	10,409,747
Small corporate clients	3,979,898	1,378,923	5,358,821	64,820	685,329	750,149	4,608,672
State owned clients	9,612,889	997,190	10,610,079	89,830	166,416	256,246	10,353,833
Other	6,804,318	1,437,559	8,241,877	78	1,437,148	1,437,226	6,804,651
Total Corporate	**65,573,972**	**22,791,567**	**88,365,539**	**469,551**	**15,519,253**	**15,988,804**	**72,376,735**
Total	**146,017,598**	**25,914,368**	**171,931,966**	**1,002,717**	**17,031,882**	**18,034,599**	**153,897,367**
Due from banks	**29,543,789**	**202,558**	**29,746,347**	**-**	**202,558**	**202,558**	**29,543,789**

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in value adjustments of receivables in the Balance Sheet

	31.12.2017	01.01.2018	Increase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2018
Total retail	2,045,795	138,046	1,642,145	(1,507,435)	(433,446)	1.885.105
Total corporate	15,988,804	614,006	3,789,725	(3,611,899)	(4,516,434)	12.264.202
Total	**18,034,599**	**752,052**	**5,431,870**	**(5,119,334)**	**(4,949,880)**	**14.149.307**
Due from banks	**202,558**	**25,260**	**66,805**	**(76,584)**	**9,998**	**228,037**

* Other changes relate to the carry-over of entirely impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Bank has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk categoriy 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – stages 1 and 2

For non-problematic receivables (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group level (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (claims in level 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims at level 2). By appreciating specificity in dealings with clients, in particular establishes the migration for economic

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivalbes by days past due – non-problematic receivables, stage 1 and 2

In RSD thousands

	Stage 1						Stage 2					
31.12.2018	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	37,223,680	174,106	-	-	-	**37,397,786**	427,559	53,801	69,467	103,377	-	**654,204**
Cash Loans	27,792,930	2,245,873	-	-	-	**30,038,803**	65,876	55,360	119,999	48,165	-	**289,400**
Agricultural Loans	8,205,610	152,267	-	-	-	**8,357,877**	28,645	1,027	45,606	15,891	-	**91,169**
Other Loans	4,860,799	332,280	-	-	-	**5,193,079**	16,828	3,441	24,572	11,418	-	**56,259**
Micro Businesses	7,751,492	942,539	-	-	-	**8,694,031**	58,824	33,394	23,166	597	-	**115,981**
Retail clients	**85,834,511**	**3,847,065**	**-**	**-**	**-**	**89,681,576**	**597,732**	**147,023**	**282,810**	**179,448**	**-**	**1,207,013**
Large corporate clients	33,652,823	301,095	-	-	-	**33,953,918**	1,255,394	81,730	321,397	-	-	**1,658,521**
Middle corporate clients	6,765,412	230,298	-	-	-	**6,995,710**	163,902	35,601	12,088	-	-	**211,591**
Small corporate clients	3,404,257	54,466	-	-	-	**3,458,723**	110,899	10,433	9	-	-	**121,341**
State owned clients	12,980,623	8,576	-	-	-	**12,989,199**	100,167	31,754	165	-	-	**132,086**
Other	11,788,352	-	-	-	-	**11,788,352**	-	-	-	-	-	**-**
Corporate clients	**68,591,467**	**594,435**	**-**	**-**	**-**	**69,185,902**	**1,630,362**	**159,518**	**333,659**	**-**	**-**	**2,123,539**
Total	**154,425,978**	**4,441,500**	**-**	**-**	**-**	**158,867,478**	**2,228,094**	**306,541**	**616,469**	**179,448**	**-**	**3,330,552**
Out of which: restructured	-	-	-	-	-	-	295,208	26,407	-	9,571	-	331,186
Due from banks	**18,494,474**	**-**	**-**	**-**	**-**	**18,494,474**	**-**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivalbes by days past due, non-problematic receivables

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	35,370,869	292,352	83,716	199,151	-	**35,946,088**
Cash Loans	22,652,874	1,470,506	109,774	53,054	-	**24,286,208**
Agricultural Loans	6,887,620	175,355	69,829	20,745	-	**7,153,549**
Other Loans	5,030,740	288,625	24,275	9,444	-	**5,353,083**
Micro Businesses	6,645,290	1,024,721	31,242	3,446	-	**7,704,698**
Retail clients	**76,587,393**	**3,251,558**	**318,835**	**285,839**	**-**	**80,443,626**
Large corporate clients	35,065,168	148,661	186,954	-	-	**35,400,783**
Middle corporate clients	8,859,787	831,450	84,847	-	-	**9,776,084**
Small corporate clients	3,701,976	268,408	9,514	-	-	**3,979,898**
State owned clients	9,494,453	118,436	-	-	-	**9,612,889**
Other	6,804,266	52	-	-	-	**6,804,318**
Corporate clients	**63,925,650**	**1,367,008**	**281,315**	-	**-**	**65,573,972**
Total	**140,513,043**	**4,618,566**	**600,150**	**285,840**	**-**	**146,017,598**
Out of which: restructured	614,572	165,746	-	-	-	780,319
Due from banks	**25,520,572**	**4,023,218**	**-**	**-**	**-**	**29,543,789**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2018	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	298,814	69,763	40,848	48,572	1,063,940	**1,521,937**
Cash Loans	60,889	23,413	12,821	17,977	111,682	**226,782**
Agricultural Loans	18,824	6,326	3,129	824	234,239	**263,342**
Other Loans	12,035	1,240	295	1,446	164,357	**179,373**
Micro Businesses	69,907	21,155	5,536	16,953	543,333	**656,884**
Retail clients	**460,469**	**121,897**	**62,629**	**85,772**	**2,117,551**	**2,848,318**
Large corporate clients						
Middle corporate clients	1,850,212	7,008	258,670	372,861	9,106,992	**11,595,743**
Small corporate clients	74,482	-	-	-	1,861,461	**1,935,943**
State owned clients	39,097	326,954	13,413	-	828,096	**1,207,560**
Other	324,552	8,458	-	-	170,839	**503,849**
Corporate clients	1,404,715	-	-	-	822	**1,405,537**
	3,693,058	**342,420**	**272,083**	**372,861**	**11,968,210**	**16,648,632**
Total	**4,153,527**	**464,317**	**334,712**	**458,633**	**14,085,761**	**19,496,950**
Out of which: restructured	2,122,009	23,622	36,725	21,914	10,893,051	**13,097,322**
Due from banks	**211,292**	**-**	**-**	**-**	**-**	**211,292**

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties and the Bank has estimated that there is a risk of default by the end of the loan repayment, given that when considering the same, a set of different criteria is used.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	176,439	51,838	16,277	26,621	1,261,018	**1,532,194**
Cash Loans	40,921	14,348	8,515	13,420	225,774	**302,978**
Agricultural Loans	19,594	5,777	9,331	8,430	162,751	**205,882**
Other Loans	10,392	460	475	218	372,334	**383,880**
Micro Businesses	69,521	15,136	937	1,629	610,643	**697,866**
Retail clients	**316,867**	**87,560**	**35,536**	**50,317**	**2,632,521**	**3,122,801**
Large corporate clients	2,262,581	-	-	-	14,677,576	**16,940,157**
Middle corporate clients	93,355	20,675	-	58,566	1,865,142	**2,037,738**
Small corporate clients	87,971	373,012	36,677	2,832	878,430	**1,378,923**
State owned clients	741,052	23,022	-	-	233,116	**997,190**
Other	1,436,737	-	-	-	822	**1,437,559**
Corporate clients	**4,621,696**	**416,709**	**36,677**	**61,398**	**17,655,086**	**22,791,567**
Total	**4,938,564**	**504,269**	**72,213**	**111,715**	**20,287,607**	**25,914,368**
Out of which: restructured	2,541,031	61,564	54,121	73,779	15,991,941	**18,722,435**
Due from banks	**202,558**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans ***in RSD thousand***

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**93,736,907**	**1,885,105**	**2,848,318**	**856,108**	**1,499,664**	**3,04%**	**2,539,572**
Housing Loans	39,573,928	773,359	1,521,938	439,228	722,407	3,85%	1,511,459
Cash Loans	30,554,984	265,933	226,782	28,097	153,963	0,74%	132,048
Agricultural Loans	8,712,387	203,227	263,341	16,409	138,525	3,02%	237,991
Other	5,428,711	200,671	179,373	-	167,551	3,30%	1,191
Micro Businesses	9,466,897	441,915	656,884	372,374	317,218	6,94%	656,883
Corporate clients	**87,958,074**	**12,264,202**	**16,648,632**	**12,241,214**	**11,365,714**	**18,93%**	**14,951,036**
Agriculture	5,368,696	114,450	222,617	13,411	85,212	4,15%	222,785
Manufacturing Industry	14,604,683	2,420,833	4,160,130	3,818,420	2,322,335	28,48%	4,154,270
Electric Energy	99,306	3,105	27,298	-	19	27,49%	27,298
Construction	7,781,109	1,205,744	1,592,833	832,676	998,515	20,47%	1,593,206
Wholesale and Retail	23,677,087	901,765	1,875,109	1,612,891	651,402	7,92%	1,868,834
Service Activities	7,280,885	1,223,932	1,494,901	1,477,865	1,187,702	20,53%	1,494,901
Real Estate Activities	4.699.746	729,500	1,323,324	983,040	704,066	28,16%	-
Other	24,446,562	5,664,873	5,952,420	3,502,911	5,416,463	24,35%	4,265,943
Total	**181,694,981**	**14,149,307**	**19,496,950**	**13,097,322**	**12,865,378**	**10,73%**	**17,490,608**
Due from banks	**18,705,766**	**228,037**	**211,292**	**-**	**211,292**	**1,13%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans *in RSD thousand*

01.01.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**83,566,427**	**2,183,841**	**3,122,801**	**859,561**	**1,811,015**	3,74%	**2,648,094**
Housing Loans	37,478,281	870,881	1,532,195	430,253	809,034	4,09%	1,511,866
Cash Loans	24,589,186	346,968	302,978	27,510	246,184	1,23%	232,677
Agricultural Loans	7,359,432	180,211	205,882	19,626	108,851	2,80%	196,094
Other	5,736,963	394,457	383,880	-	365,311	6,69%	10,416
Micro Businesses	8,402,565	391,324	697,866	382,172	281,635	8,31%	697,041
Corporate clients	**88,365,539**	**16,602,810**	**22,791,567**	**17,862,874**	**15,625,333**	25,79%	**21,102,348**
Agriculture	6,066,845	141,912	253,050	28,243	106,767	4,17%	252,908
Manufacturing Industry	22,380,808	5,914,702	9,145,453	8,191,755	5,759,130	40,86%	6,591,232
Electric Energy	149,035	4,039	67,005	-	174	44,96%	67,005
Construction	5,681,922	970,217	934,013	810,916	890,877	16,44%	1,148,489
Wholesale and Retail	22,011,868	2,021,039	3,652,235	2,846,093	1,727,730	16,59%	3,804,104
Service Activities	13,182,040	1,403,407	1,438,755	1,411,506	1,155,730	10,91%	1,465,235
Real Estate Activities	1.512.515	680,603	1,345,149	960,907	679,338	88,93%	1,370,156
Other	**17,380,506**	**5,466,891**	**5,955,907**	**3,613,454**	**5,305,587**	**34,27%**	**6,403,219**
Total	**171,931,966**	**18,786,651**	**25,914,368**	**18,722,435**	**17,436,348**	**15,07%**	**23,750,442**
Due from banks	**29,746,347**	**227,818**	**202,558**	**-**	**202,558**	**0,68%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans ***in RSD thousand***

31.12.2017	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**83,566,427**	**2,045,795**	**3,122,801**	**859,561**	**1,512,629**	**3,74%**	**2,648,094**
Housing Loans	37,478,281	614,417	1,532,194	430,253	520,302	4,09%	1,511,866
Cash Loans	24,589,186	430,066	302,978	27,510	229,833	1,23%	232,677
Agricultural Loans	7,359,432	161,639	205,882	19,626	100,090	2,80%	196,094
Other	5,736,963	449,327	383,880	-	372,548	6,69%	10,416
Micro Businesses	8,402,565	390,345	697,866	382,172	289,855	8,31%	697,041
Corporate	**88,365,539**	**15,988,804**	**22,791,567**	**17,862,874**	**15,519,253**	**25,79%**	**21,102,348**
Agriculture	6,066,845	161,354	253,050	28,243	113,994	4,17%	252,908
Manufacturing Industry	22,380,808	5,941,568	9,145,453	8,191,755	5,721,734	40,86%	6,591,232
Electric Energy	149,035	28,187	67,005	-	174	44,96%	67,005
Construction	5,681,922	891,110	934,013	810,916	885,538	16,44%	1,148,489
Wholesale and Retail	22,011,868	1,845,546	3,652,235	2,846,093	1,756,203	16,59%	3,804,104
Service Activities	13,182,040	1,163,568	1,438,755	1,411,506	1,089,579	10,91%	1,465,235
Real Estate Activities	1,512,515	692,376	1,345,149	960,907	691,123	88,93%	1,370,156
Other	17,380,506	5,265,097	5,955,907	3,613,454	5,260,908	34,27%	6,403,219
Total	**171,931,966**	**18,034,599**	**25,914,368**	**18,722,435**	**17,031,882**	**15,07%**	**23,750,442**
Due from banks	**29,746,347**	**202,558**	**202,558**	**-**	**202,558**	**0,68%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables *in RSD thousand*

	Gross 31.12.2017	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross 31.12.2018	Net 31.12.2018
Housing Loans	1,532,194	244,442	(192,535)	20,210	(82,374)	1,521,937	799,531
Cash Loans	302,978	166,511	(228,844)	(52)	(13,811)	226,782	72,820
Agricultural Loans	205,882	135,157	(61,519)	(369)	(15,810)	263,341	124,816
Other Loans	383,880	90,077	(299,398)	(10)	4,824	179,373	11,821
Micro Businesses	697,866	119,413	(137,675)	(1,466)	(21,253)	656,885	339,666
Retail	**3,122,800**	**755,600**	**(919,971)**	**18,313**	**(128,424)**	2,848,318	**1,348,654**
Large corporate clients	16,940,157	637,059	(5,279,315)	(29,428)	(672,732)	11,595,741	3,694,088
Middle corporate clients	2,037,738	22,365	(78,154)	(4,362)	(41,644)	1,935,943	648,423
Small corporate clients	1,378,923	15,169	(77,188)	(2,445)	(106,898)	1,207,561	575,364
State owned clients	997,190	-	(1,055)	(1,913)	(490,372)	503,850	364,631
Other	1,437,559	-	-	(2,701)	(29,321)	1,405,537	412
Corporate Clients	**22,791,567**	**674,593**	**(5,435,712)**	**(40,849)**	**(1,340,967)**	**16,648,632**	**5.282.918**
Total	**25,914,367**	**1,430,193**	**(6,355,683)**	**(22,536)**	**(1,469,391)**	**19,496,950**	**6.631.572**
Due from banks	**202,558**	**-**	**-**	**8.734**	**-**	**211,292**	**-**

The decrase of problematic receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the parent Bank

Other changes relate to a partial increase/decrease in the amount of receivables within one lot during the year and mostly to the partial collection at parent Bank.

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December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables(stage 1 and 2)

in RSD thousand

	31.12.2018				31.12.2017			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	37,897,797	154,193	38,051,990	37,867,041	35,707,544	238,544	35,946,088	35,671,079
Cash Loans	30,006,894	321,308	30,328,202	6,122,364	24,222,726	63,482	24,286,208	11,521,899
Agricultural Loans	8,419,685	29,361	8,449,046	6,617,026	7,125,547	28,002	7,153,549	6,059,245
Other Loans	5,211,496	37,842	5,249,338	91,821	5,331,736	21,346	5,353,083	96,689
Micro Businesses	8,414,374	395,639	8,810,013	8,804,246	7,286,079	418,619	7,704,698	7,704,263
Retail	**89,950,246**	**938,343**	**90,888,589**	**59,502,500**	**79,673,633**	**769,993**	**80,443,626**	**61,053,174**
Large corporate clients	30,369,732	5,242,708	35,612,440	32,707,216	34,569,288	831,495	35,400,783	34,954,220
Middle corporate clients	7,100,191	107,110	7,207,301	7,044,748	9,584,446	191,639	9,776,084	9,647,024
Small corporate clients	3,521,734	58,329	3,580,063	3,632,286	3,844,531	135,367	3,979,898	3,955,505
State owned clients	10,926,175	2,195,210	13,121,386	10,060,358	7,794,070	1,818,819	9,612,889	6,158,448
Other	11,788,160	92	11,788,252	8,742,174	3,052,381	3,751,937	6,804,318	3,752,134
Corporate Clients	**63,705,993**	**7,603,449**	**71,309,442**	**62,186,782**	**58,844,716**	**6,729,257**	**65,573,972**	**58,467,332**
Total	**153,656,238**	**8,541,792**	**162,198,031**	**121,689,281**	**138,518,348**	**7,499,250**	**146,017,598**	**119,520,506**
Due from banks	**18,494,474**	**-**	**18,494,474**	-	**29,543,789**	**-**	**29,543,789**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In RSD thousand

31.12.2018	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables-stage 2	Resturctured receivables stage 3	Impairment of restructured receivables-stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**93,736,907**	**1,885,105**	**1,096,805**	**344,729**	**240,697**	**7,605**	**856,108**	**337,124**	**1,17%**	**1,094,194**
Housing Loans	39,573,927	773,358	675,476	191,582	236,248	7,545	439,228	184,037	1,71%	675,277
Cash Loans	30,554,984	265,933	28,097	11,556	-	-	28,097	11,556	0,09%	25,912
Agricultural Loans	8,712,387	203,227	17,857	5,531	1,448	-	16,409	5,531	0,20%	17,630
Other	5,428,711	200,671	-	-	-	-	-	-	0,00%	-
Micro Businesses	9,466,897	441,915	375,375	136,060	3,001	61	372,374	135,999	3,97%	375,375
Corporate Clients	**87,958,074**	**12,264,202**	**12,331,703**	**8,712,244**	**90,489**	**14,972**	**12,241,214**	**8,697,272**	**14,02%**	**12,296,249**
Agriculture	5,368,696	114,450	13,411	-	-	-	13,411	-	0,25%	13,411
Manufacturing Industry	14,604,682	2,420,833	3,818,420	2,301,616	-	-	3,818,420	2,301,616	26,15%	3,812,560
Electric Energy	99,306	3,105	-	-	-	-	-	-	0,00%	-
Construction	7,781,109	1,205,744	832,676	811,000	-	-	832,676	811,000	10,70%	832,676
Wholesale and Retail	23,677,087	901,765	1,692,947	561,400	80,056	14,972	1,612,891	546,428	7,15%	1,663,353
Service Activities	7,280,885	1,223,932	1,477,865	1,187,615	-	-	1,477,865	1,187,615	20,30%	1,477,865
Real Estate Activities	4.699.746	729,500	993,473	683,104	10,433	-	983,040	683,104	21,14%	993,473
Other	24,446,562	5,664,873	3,502,911	3,167,509	-	-	3,502,911	3,167,509	14,33%	3,502,911
Total	**181,694,980**	**14,149,307**	**13,428,508**	**9,056,973**	**331,186**	**22,578**	**13,097,322**	**9,034,395**	**7,39%**	**13,390,443**
Due from banks	**18,705,766**	**228,037**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In RSD thousand

31.12.2017	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**83,566,427**	**2,045,795**	**1,093,014**	**859,561**	**310,969**	**1,31%**	**1,089,912**
Housing Loans	37,478,281	614,417	655,486	430,253	164,162	1,75%	654,999
Cash Loans	24,589,186	430,066	35,466	27,510	13,135	0,14%	33,730
Agricultural Loans	7,359,432	161,639	19,626	19,626	5,399	0,27%	18,746
Other	5,736,963	449,327	-	-	-	0,00%	-
Micro Businesses	8,402,565	390,345	382,436	382,172	128,273	4,55%	382,436
Corporate Clients	**88,365,539**	**15,988,804**	**18,409,740**	**17,862,874**	**12,699,795**	**20,83%**	**18,381,116**
Agriculture	6,066,845	161,354	28,243	28,243	16,593	0,47%	28,243
Manufacturing Industry	22,380,808	5,941,568	8,598,619	8,191,755	5,660,335	38,42%	8,591,732
Electric Energy	149,035	28,187	-	-	-	0,00%	-
Construction	5,681,922	891,110	831,141	810,916	788,286	14,63%	831,141
Wholesale and Retail	22,011,868	1,845,546	2,946,223	2,846,093	1,224,670	13,38%	2,924,486
Service Activities	13,182,040	1,163,568	1,431,154	1,411,506	1,089,580	10,86%	1,431,154
Real Estate Activities	1,512,515	692,376	960,907	960,907	673,604	63,53%	960,907
Other	17,380,506	5,265,097	3,613,454	3,613,454	3,246,727	20,79%	3,613,454
Total	**171,931,966**	**18,034,599**	**19,502,754**	**18,722,435**	**13,010,764**	**11,34%**	**19,471,028**
Due from banks	**29,746,347**	**202,558**	**-**	**-**	**-**	**0,00%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In RSD thousand

	Gross 31.12.2017	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2018	Net 31.12.2018
Housing Loans	655,486	61,299	(17,214)	13,472	(37,567)	675,476	483,894
Cash Loans	35,466	11,390	(15,947)	(34)	(2,777)	28,097	16,541
Agricultural Loans	19,626	1,448	(631)	(45)	(2,542)	17,857	12,326
Other Loans	-	-	-	-	-	-	-
Micro Businesses	382,436	3,001	(3,247)	(860)	(5,955)	375,375	239,316
Retail	**1,093,014**	**77,139**	**(37,039)**	**12,533**	**(48,841)**	**1,096,805**	**752,076**
Large corporate clients	16,657,832	-	(5,091,319)	(28,635)	(675,267)	10,862,610	3,130,305
Middle corporate clients	1,264,760	-	(171,324)	(2,891)	(10,716)	1,079,829	340,768
Small corporate clients	486,093	10,433	(73,487)	(1,132)	(32,643)	389,263	148,385
State owned clients	1,055	-	(1,055)	(2)	2	-	-
Other	-	-	-	-	-	-	-
Corporate Clients	**18,409,740**	**10,433**	**(5,337,186)**	**(32,661)**	**(718,623)**	**12,331,703**	**3,619,459**
Total	**19,502,754**	**87,572**	**(5,374,225)**	**(20,128)**	**(767,464)**	**13,428,508**	**4,371,535**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The decrase of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the parent Bank. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Bank members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Bank (collateral or financial approval of favorable repayment terms),
- partial write-offs - in the past period, the Bank members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4.1.5. Risk of concentration

The Bank manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Bank on an annual basis depending on market trends, appetite for risk, business policy Bank and the annual business plan, reviewed and, if necessary, changes internally set limits.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In RSD thousand

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

31.12.2018	Non problematic receivables					problematic receivables				
	Serbia	**Montenegro**	**BiH**	**EU**	**Other**	**Serbia**	**Montenegro**	**BiH**	**EU**	**Other**
Retail	**90,888,589**	**-**	**-**	**-**	**-**	**2,848,318**	**-**	**-**	**-**	**-**
Housing Loans	38,051,990	-	-	-	-	1,521,937	-	-	-	-
Cash Loans	30,328,202	-	-	-	-	226,782	-	-	-	-
Agricultural Loans	8,449,046	-	-	-	-	263,341	-	-	-	-
Other	5,249,338	-	-	-	-	179,373	-	-	-	-
Micro Businesses	8,810,013	-	-	-	-	656,884	-	-	-	-
Corporate Clients	**59,521,054**	**3,442,252**	**8,346,136**	**-**	**-**	**16,648,632**	**-**	**-**	**-**	-
Agriculture	5,146,080	-	-	-	-	222,617	-	-	-	-
Manufacturing Industry	10,444,552	-	-	-	-	4,160,130	-	-	-	-
Electric Energy	72,008	-	-	-	-	27,298	-	-	-	-
Construction	6,188,277	-	-	-	-	1,592,833	-	-	-	-
Wholesale and Retail	21,801,978	-	-	-	-	1,875,109	-	-	-	-
Service Activities	5,785,984	-	-	-	-	1,494,901	-	-	-	-
Real Estate Activities	3.376.422	-	-	-	-	1,323,324	-	-	-	-
Other	6,705,753	3,442,252	8,346,136	-	-	5,952,421	-	-	-	-
Total	**150,409,643**	**3,442,252**	**8,346,136**	**-**	**-**	**19,496,950**	**-**	**-**	**-**	**-**
Due from banks	**6,459,266**	**8,705**	**105,045**	**9,334,204**	**2,587,254**	**-**	**-**	**-**	**-**	**211.292**

Total credit exposure nonproblematic receivables are Montenegro and Bosnia and Herzegovina and are located in Stage 1.
Depending on general economic trends and developments in individual industrial sectors, the Bank members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In RSD thousand

	Non problematic receivables					Problematic receivables				
31.12.2017	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**
Retail	**80,443,626**	**-**	**-**	**-**	**-**	**3,122,801**	**-**	**-**	**-**	**-**
Housing Loans	35,946,088	-	-	-	-	1,532,194	-	-	-	-
Cash Loans	24,286,208	-	-	-	-	302,978	-	-	-	-
Agricultural Loans	7,153,549	-	-	-	-	205,882	-	-	-	-
Other	5,353,083	-	-	-	-	383,880	-	-	-	-
Micro Businesses	7,704,698	-	-	-	-	697,866	-	-	-	-
Corporate Clients	**58,769,024**	**3,751,885**	**3,053,064**	**-**	**-**	**22,791,567**	**-**	**-**	**-**	**-**
Agriculture	5,813,795	-	-	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	-	-	-	-	9,145,453	-	-	-	-
Electric Energy	82,030	-	-	-	-	67,005	-	-	-	-
Construction	4,747,909	-	-	-	-	934,013	-	-	-	-
Wholesale and Retail	18,359,633	-	-	-	-	3,652,235	-	-	-	-
Service Activities	11,743,285	-	-	-	-	1,438,755	-	-	-	-
Real Estate Activities	167,366	-	-	-	-	1,345,149	-	-	-	-
Other	4,619,651	3,751,885	3,053,064	-	-	5,955,907	-	-	-	-
Total	**139,212,649**	**3,751,885**	**3,053,064**	**-**	**-**	**25,914,368**	**-**	**-**	**-**	**-**
Due from banks	**7,883,218**	**8,655**	**494,798**	**4,649,755**	**16,507,363**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In RSD thousand

	31.12.2018		31.12.2017	
	Gross	**Net**	**Gross**	**Net**
Financial assets:	-	-	-	-
− at fair value through profit and loss	4,813,880	4,813,880	-	-
− at fair value through other comprehensive income	128,369,382	128,367,788	-	-
− at amortised cost	-	-	-	-
- at fair value through profit and loss held for trading	-	-	5.269.709	5,269,709
- available for sale	-	-	112,019,061	112,019,058
- held to maturity	-	-	-	-
Total	**133,183,262**	**133,181,668**	**117,288,770**	**117,288,767**

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) , as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska municipality bonds and bonds of other banks.

Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral — in RSD thousand

31.12.2018	Stage 1 Real Estate	Stage 1 Deposits	Stage 1 Guarantees	Stage 1 Other Collaterals	Stage 1 Total	Stage 2 Real Estate	Stage 2 Deposits	Stage 2 Guarantees	Stage 2 Other Collaterals	Stage 2 Total
Housing Loans	34,299,759	12,509	-	2,901,626	**37,213,894**	634,773	-	-	18,374	**653,147**
Cash Loans	44,976	544,305	-	5,411,958	**6,001,240**	-	14,515	-	106,609	**121,125**
Agricultural Loans	3,128,582	126,409	14,064	3,271,857	**6,540,912**	52,141	-	-	23,974	**76,115**
Other	-	4,389	-	87,364	**91,753**	-	-	-	69	**69**
Micro Businesses	1,479,436	648,308	-	6,560,521	**8,688,265**	14,236	3,908	-	97,837	**115,981**
Total Retail	**38,952,754**	**1,335,919**	**14,064**	**18,233,327**	**58,536,063**	**701,150**	**18,424**	**-**	**246,863**	**966,436**
Large Corporate Clients	21,269,065	322,031	101,803	9,385,388	**31,078,288**	554,800	-	-	1,074,128	**1,628,928**
Middle Corporate Clients	2,168,776	280,297	-	4,384,084	**6,833,158**	120,526	-	21,718	69,347	**211,590**
Small Corporate Clients	1,098,757	190,487	-	2,221,647	**3,510,891**	66,590	54,796	-	9	**121,395**
State	614,943	1,182	1,580,848	7,731,818	**9,928,791**	-	-	-	131,567	**131,567**
Other	-	-	-	8,742,174	**8,742,174**	-	-	-	-	**-**
Corporate Clients	**25,151,541**	**793,998**	**1,682,652**	**32,465,111**	**60,093,302**	**741,915**	**54,796**	**21,718**	**1,275,050**	**2,093,479**
Total	**64,104,295**	**2,129,917**	**1,696,716**	**50,698,438**	**118,629,365**	**1,443,065**	**73,220**	**21,718**	**1,521,913**	**3,059,916**
Of which: restructured	-	-	-	-	-	286,060	-	-	15,532	301,592
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*** Other collateral relating to the pledge on the goods, the lien on the receivables, the pledge on equipment, warranty.**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

in RSD thousand

31.12.2018	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,438,831	-	-	72,628	**1,511,459**
Cash Loans	9,982	1,165	-	120,901	**132,048**
Agricultural Loans	172,246	-	192	65,552	**237,991**
Other	-	-	-	1,191	**1,191**
Micro Businesses	513,503	5,157	-	138,223	**656,883**
Total Retail	**2,134,562**	**6,322**	**192**	**398,495**	**2,539,572**
Large Corporate Clients	9,904,778	-	-	1,686,932	**11,591,710**
Middle Corporate Clients	1,548,980	-	-	267,116	**1,816,096**
Small Corporate Clients	1,098,275	-	-	113,097	**1,211,372**
State	7,306	-	297,254	27,298	**331,859**
Other	-	-	-	-	**-**
Corporate Clients	**12,559,340**	**-**	**297,254**	**2,094,442**	**14,951,036**
Total	**14,693,902**	**6,322**	**297,447**	**2,492,938**	**17,490,608**
Of which: restructured	11,513,479	-	-	1,575,372	13,088,851
Due from banks	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

31.12.2017	Nonproblematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	34,361,505	3,482	-	1,306,093	35,671,079	1,445,867	-	-	65,999	1,511,866
Cash Loans	57,369	427,817	-	11,036,713	11,521,899	9,447	7,157	-	216,073	232,677
Agricultural Loans	3,058,425	27,539	29,110	2,944,170	6,059,245	145,561	-	12	50,521	196,094
Other	-	5,115	-	91,574	96,689	8,968	4	-	1,444	10,416
Micro Businesses	1,424,581	483,147	-	5,796,535	7,704,263	520,421	3,973	-	172,647	697,041
Total Retail	**38,901,880**	**947,100**	**29,110**	**21,175,085**	**61,053,174**	**2,130,264**	**11,134**	**12**	**506,683**	**2,648,094**
Large Corporate Clients	16,630,551	249,954	6,161,689	11,912,027	34,954,220	14,634,237	-	-	2,301,515	16,935,752
Middle Corporate Clients	4,664,724	450,957	-	4,531,344	9,647,024	1,806,786	-	-	224,391	2,031,176
Small Corporate Clients	1,493,305	346,296	-	2,115,904	3,955,505	1,249,791	14	-	134,348	1,384,153
State	397,383	2,261	709,940	5,048,865	6,158,448	9,160	-	669,596	72,511	751,267
Other	-	-	-	3,752,134	3,752,134	-	-	-	-	-
Corporate Clients	**23,185,962**	**1,049,468**	**6,871,628**	**27,360,273**	**58,467,332**	**17,699,973**	**14**	**669,596**	**2,732,765**	**21,102,349**
Total	**62,087,842**	**1,996,568**	**6,900,738**	**48,535,358**	**119,520,506**	**19,830,238**	**11,148**	**669,608**	**3,239,449**	**23,750,442**
Of which: restructured	459,915	20,225	59,233	219,208	758,582	16,683,792	-	-	2,028,654	18,712,446
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan To Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	December 31, 2018	December 31, 2017
Less than 50%	27,640,458	27,072,008
50% - 70%	18,738,367	15,683,073
71% - 100%	19,798,281	17,678,221
101% - 150%	8,671,141	8,586,921
More than 150%	10,272,865	16,557,852
Total exposure	**85,121,112**	**85,578,076**
Average LTV	**68.98%**	**69.05%**

4.1.8. Foreclosed assets

Foreclosed assets taken by the Bank in the process of collection of placements are presented in the following review:

In thousands of RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2017	**75,116**	**1,949,628**	**111,605**	**162,889**	**2,299,238**
Acquisition	-	-	-	-	-
Sale	-	-	-	-	-
Transfer to invesment proprety	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-
Transfer to fixed assets	-	(30,480)	-	-	(30,480)
Other	-	-	(62)	-	(62)
31.12.2018	**75,116**	**1,919,147**	**111,543**	**162,889**	**2,268,696**
Impairment Allowances	**30,548**	**790,053**	**89,295**	**39,833**	**949,729**
Net	**44,569**	**1,129,094**	**22,248**	**123,056**	**1,318,967**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Bank respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Bank members, whose decisions may influence the Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

• diversifies sources of funds, by currency and maturity;
• form and maintain sufficient level of liquidity reserves;
• manages funds;
• monitor future cash flows and liquidity on a daily basis;
• limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
• defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk(continued)

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

- GAP analysis;
- Rational analysis;
- Stress test.

Mitigation involves maintaining the liquidity risk at an acceptable level for the Bank's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Bank's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

The Bank during 2018 has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2018	2017	2018	2017	2018	2017
As at December 31	3.86	4.30	3.56	4.10	395%	436%
Average for the period	4.38	3.99	4.10	3.61	444%	
Maximum for the period	4.92	5.61	4.68	5.21	495%	-
Minimum for the period	3.19	2.79	2.94	2.41	388%	-

During 2018, the liquidity indicator, the narrow liquidity indicator and the i liquidity coverage ratio ranged above the defined limits.

The Bank defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2018	2017
GAP up to 1 month / Total assets	Max (10%)	1.57%	2.16%
Cumulative GAP up to 3 months / Total assets	Max (20%)	1.85%	5.97%

In addition, the Bank limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,216,102	2,227,838	1,190	1,032,599	-	18,477,729
Loans and receivables due from Customers	8,456,758	7,926,685	36,576,671	71,432,208	43,153,352	167,545,674
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,294
Total	100,160,126	21,270,121	55,753,696	158,723,111	50,681,020	386,588,074
Deposits and other liabilities due to banks, other financial institutions and central bank	3,825,579	1,768,283	35,548	33,338	-	5,662,748
Deposits and other liabilities due to Customers	234,415,598	10,547,173	44,778,288	25,734,422	1,753,603	317,229,084
Other liabilities	2,189,505	175,398	6,173,267	19,445	-	8,557,615
Total	**240,430,682**	**12,490,854**	**50,987,103**	**25,787,205**	**1,753,603**	**331,449,447**
Net liquidity gap, As of December 31, 2018	**(140,270,556)**	**8,779,267**	**4,766,593**	**132,935,906**	**48,927,417**	**55,138,627**
As of December 31, 2017	**(123,441,719)**	**14,070,310**	**526,461**	**121,922,574**	**37,718,448**	**50,796,074**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,686,959	3,818,128	169,242	869,460	-	29,543,789
Loans and receivables due from Customers	9,806,670	8,007,522	31,304,441	66,132,086	38,646,648	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
Total	**91,027,183**	**27,148,949**	**51,128,037**	**145,888,815**	**39,476,118**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,282,217	745,420	759,789	745,079	-	4,532,505
Deposits and other liabilities due to Customers	207,084,364	12,241,246	48,205,484	23,182,876	1,757,670	292,471,640
Other liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
Total	**214,468,902**	**13,078,639**	**50,601,576**	**23,966,241**	**1,757,670**	**303,873,028**
Net liquidity gap As of December 31, 2017	**(123,441,719)**	**14,070,310**	**526,461**	**121,922,574**	**37,718,448**	**50,796,074**
As of December 31, 2016	**(115,635,179)**	**9,196,993**	**11,952,038**	**101,113,826**	**36,859,199**	**43,486,877**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and avista deposits will be withdrawn within one month.

The Bank collects deposits of corporate and retail secotr, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Bank's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Bank manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves.

The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis.

The Bank regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash Flows of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,217,369	2,236,892	6,369	1,042,878	-	18,503,508
Loans and receivables due from customers	9,174,190	9,253,466	41,737,558	86,420,854	56,288,262	202,874,330
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,293
Total	**100,878,825**	**22,605,956**	**60,919,762**	**173,722,036**	**63,815,930**	**421,942,508**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,829,992	1,783,138	35,838	35,190	-	5,684,158
Deposits and other liabilities due to customers	234,590,393	10,627,123	45,268,089	26,959,699	2,127,457	319,572,761
Other liabilities	2,189,505	175,398	6,173,268	19,445	-	8,557,616
Total	**240,609,890**	**12,585,659**	**51,477,195**	**27,014,334**	**2,127,457**	**333,814,535**
Net liquidity gap						
As of December 31, 2018	**(139,731,065)**	**10,020,297**	**9,442,567**	**146,707,702**	**61,688,473**	**88,127,973**
As of December 31, 2017	**(122,823,021)**	**15,211,425**	**5,093,059**	**135,183,557**	**49,982,773**	**82,647,793**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,694,834	3,819,423	176,500	871,997	-	29,562,754
Loans and receivables due from customers	10,488,970	9,281,745	36,391,907	80,244,629	51,323,984	187,731,235
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
Total	**91,717,358**	**28,424,467**	**56,222,761**	**160,003,895**	**52,153,454**	**388,521,935**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,282,295	768,351	774,739	753,956	-	4,579,341
Deposits and other liabilities due to customers	207,155,763	12,352,718	48,718,660	24,028,096	2,170,681	294,425,918
Other liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
Total	**214,540,379**	**13,213,042**	**51,129,702**	**24,820,338**	**2,170,681**	**305,874,142**
Net liquidity gap						
As of December 31, 2017	**(122,823,021)**	**15,211,425**	**5,093,059**	**135,183,557**	**49,982,773**	**82,647,793**
As of December 31, 2016	**(115,241,739)**	**10,824,890**	**17,037,970**	**115,516,149**	**49,587,258**	**77,724,528**

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates.

4. RISK MANAGEMENT (continued)

4.3. Market risk

Market risk is the possibility of adverse effects on the Bank's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Bank is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Bank members whose decisions may influence the Bank's exposure to this risk.

Interest rate risk is the risk of adverse effects on the Bank's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Bank manages the following types of interest rate risk:

• risk of time mismatch of repayment and repricing risk;
• yield curve risk - to whom it is exposed due to change in yield curve shape;
• base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Bank manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

The Bank particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile and implies the process of defining the Bank's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Bank's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management.

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4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2018	2017
Relative GAP	Max 15%	2.01%	2.18%
Coefficient of Disparity	0.75 – 1.25	1.02	1.03

During 2018, interest rate risk indicators moved within internally defined limits.
In addition, the Bank has defined the internal limits for exposure to interest rate risk by significant currencies and the limit of the maximum economic value of capital.
Compliance with internally defined limits of economic value of capital:

	2018	2017
On December 31st	4.30%	3.65%
Average for period	4.77%	3.86%
Maximum for period	5.72%	4.49%
Minimum for period	4.00%	3.03%
Limit	**20%**	**20%**

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4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2018

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	23,573,523	-	-	-	-	23,573,523	40,022,187	63,595,710
Loans and receivables due from banks and other financial institutions	15,108,994	2,227,838	1,190	200,130	-	17,538,152	939,577	18,477,729
Loans and receivables due from customers	46,406,690	14,941,447	43,932,737	56,082,686	5,877,718	167,241,278	304,396	167,545,674
Financial assets (securities)	11.065.869	10.552.011	17.313.062	86.255.911	7.527.551	132.714.404	467.263	133.181.667
Other assets	-	-	-	-	-	-	3.787.294	3.787.294
Total	**96.155.076**	**27.721.296**	**61.246.989**	**142.538.727**	**13.405.269**	**341.067.357**	**45.520.717**	**386.588.074**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,829,350	1,767,067	35,548	33,338	-	5,665,303	(2,555)	5,662,748
Deposits and other liabilities due to customers	235,775,655	11,377,887	43,179,431	24,477,719	1,535,543	316,346,235	882,849	317,229,084
Other liabilities	-	-	-	-	-	-	8,557,615	8,557,615
Total	**239.605.005**	**13,144,954**	**43,214,979**	**24,511,057**	**1,535,543**	**322.011.538**	**9.437.909**	**331,449,447**
Interest rate GAP								
-At December 31, 2018	**(143.449.929)**	**14.576.342**	**18.032.010**	**118.027.670**	**11.869.726**	**19.055.819**	**36.082.808**	**55.138.627**
-At December 31, 2017	**(121,279,033)**	**14,046,387**	**7,000,395**	**108,437,184**	**10,012,306**	**18,217,238**	**32,578,836**	**50,796,074**

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4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2017

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	15,047,611	-	-	-	-	15,047,611	34,793,276	49,840,887
Loans and receivables due from banks and other financial institutions	24,532,121	3,818,116	169,243	33,819	-	28,553,299	990,490	29,543,789
Loans and receivables due from customers	45,939,381	12,171,594	33,502,849	50,835,801	10,972,279	153,421,904	475,463	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,355	78,671,309	336,070	117,288,767	-	117,288,767
Other assets	-	-	-	-	-	-	4,098,292	4,098,292
Total	**90,193,240**	**29,942,616**	**53,326,447**	**129,540,929**	**11,308,349**	**314,311,581**	**40,357,521**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,289,289	2,168,102	58,951	13,295	22,397	4,552,035	(19,530)	4,532,505
Deposits and other liabilities due to customers	209,182,984	13,728,127	46,267,101	21,090,450	1,273,646	291,542,308	929,332	292,471,640
Other liabilities	-	-	-	-	-	-	6,868,883	6,868,883
Total	211,472,273	15,896,229	46,326,052	21,103,745	1,296,043	296,094,343	7,778,685	303,873,028
Interest rate GAP								
-At December 31, 2017	**(121,279,033)**	**14,046,387**	**7,000,395**	**108,437,184**	**10,012,306**	**18,217,238**	**32,578,836**	**50,796,074**
-At December 31, 2016	**(97,571,970)**	**5,932,976**	**8,882,021**	**79,614,084**	**14,167,934**	**11,025,043**	**32,461,835**	**43,486,878**

4. RISK MANAGEMENT (continued)

4.3. *Market risks* (continued)

4.3.1. Interest rate risk

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Bank members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Bank regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Bank.

The Bank assesses the impact that standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

In modeling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Bank on the basis of historical developments and expert assessments, is specifically considered, the Bank has carried out an estimate of the movement of transaction deposits, demand deposits and household savings by applying relevant statistical models from domain analysis of time series.

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2018		
At 31 December	397,617	(397,617)
2017		
At 31 December	346,337	(346,337)

4.3 2. Foreign exchange risk

The Bank is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. All positions contained in the banking book and trading book in foreign currency and gold, as well as dinar (RSD) positions indexed by currency clause are exposed to foreign exchange risk.

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk (continued)

In order to minimize exposure to foreign exchange risk, the Bank performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Bank comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures.

Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.
The Bank coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.
Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at 31 December:

	2018	2017
Total risk foreign exchange position	1,064,940	2,248,347
Foreign exchange risk indicator	1.9%	4.4%
Regulatory limit	20%	20%

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk

Review of monetary assets and monetary liabilities by currencies as at 31 December 2018

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,651,089	114,133	620,428	481,553	**33,867,203**	-	-	-	29,728,507	63,595,710
Loans and receivables due from banks and other financial institutions	7,361,578	2,063,711	3,065,118	2,197,712	**14,688,119**	-	-	-	3,789,610	18,477,729
Loans and receivables due from customers	15,297,168	-	-	-	**15,297,168**	101,017,998	-	3,651,403	47,579,105	167,545,674
Financial assets (securities)	66,540,863	11,114,968	1,702,199	-	**79,358,030**	249,591	-	-	53,574,046	133,181,667
Other assets	1,148,340	95,892	63,825	1,295	**1,309,352**	-	-	-	2,477,942	3,787,294
Total	**122,999,038**	**13,388,704**	**5,451,570**	**2,680,560**	**144,519,872**	**101,267,589**	**-**	**3,651,403**	**137,149,210**	**386,588,074**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,337,798	828,756	364,639	29,583	**3,560,776**	19,073	-	-	2,082,899	5,662,748
Deposits and other liabilities due to customers	218,260,607	11,894,683	8,620,407	2,590,604	**241,366,301**	468,239	19,705	-	75,374,839	317,229,084
Other liabilities	742,789	121,323	108,507	30,146	**1,002,765**	-	-	-	7,554,850	8,557,615
Total	**221,341,194**	**12,844,762**	**9,093,553**	**2,650,333**	**245,929,842**	**487,312**	**19,705**	**-**	**85,012,588**	**331,449,447**
Net Currency Position, 31 December 2018	**(98,342,156)**	**543,942**	**(3,641,983)**	**30,227**	**(101,409,970)**	**100,780,277**	**(19,705)**	**3,651,403**	**52,136,622**	**55,138,627**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk

Review of monetary assets and monetary liabilities by currencies as at 31 December 2017

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	30,613,336	149,359	510,641	476,712	31,750,048	-	-	-	18,090,839	49,840,887
Loans and receivables due from banks and other financial institutions	6,471,500	2,901,236	2,696,013	2,187,682	14,256,431	-	-	-	15,287,358	29,543,789
Loans and receivables due from customers	11,565,610	-	-	-	11,565,610	95,727,011	-	4,011,996	42,592,750	153,897,367
Financial assets (securities)	70,944,119	9,062,663	1,782,330	-	81,789,112	332,778	-	-	35,166,877	117,288,767
Other assets	1,638,400	262,757	886	270	1,902,313	-	-	-	2,195,979	4,098,292
Total	**121,232,965**	**12,376,015**	**4,989,870**	**2,664,664**	**141,263,514**	**96,059,789**	**-**	**4,011,996**	**113,333,803**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,563,823	189,871	135,310	29,842	3,918,846	14,193	-	-	599,466	4,532,505
Deposits and other liabilities due to customers	211,143,575	10,753,027	8,623,783	2,533,382	233,053,767	203,045	18,890	-	59,195,938	292,471,640
Other liabilities	1,337,660	1,026,547	84,513	12,923	2,461,643	8,921	-	-	4,398,319	6,868,883
Total	**216,045,058**	**11,969,445**	**8,843,606**	**2,576,147**	**239,434,256**	**226,159**	**18,890**	**-**	**64,193,723**	**303,873,028**
Net Currency Position, 31 December 2017	**(94,812,093)**	**406,570**	**(3,853,736)**	**88,517**	**(98,170,742)**	**95,833,630**	**(18,890)**	**4,011,996**	**49,140,080**	**50,796,074**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk

A review of the ten-day VaR

The Bank also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and / or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Bank's portfolio for a certain period and at a predetermined confidence interval. The Bank calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Bank calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2018 and 2017 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2018				
Foreign currency risk	18,360	14,039	36,751	554
2017				
Foreign currency risk	27,581	28,580	54,272	15,905

4. RISK MANAGEMENT (continued)

4.4. Operational risk

Operational risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors and process management.

The Bank monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate banking, retail banking, payment transfers, agency services and asset management.

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Bank is done through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Bank's exposure to operational risk.

The Bank cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Bank takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes.

4. RISK MANAGEMENT (continued)

4.4. Operational risk (continued)

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by the Bank's organizational parts in order to reduce arising operational risks. The Bank assess the risk of entrusting third parties with activities related to the Bank's operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.

With the objective of smooth and continued operation of all significant systems and processes in the Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Bank adopted the Disaster Recovery Plan.

4.5. Risks of investment

The risk of the Bank's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Bank's investment in a person who is not a person in the financial sector may be up to 10% of the Bank's capital, whereby this investment implies an investment by which members of the Bank acquire a holding or shares of a person other than a person in the financial sector. The Bank's total investments in non-entities in the financial sector and in fixed assets and investment property of the Bank may be up to 60% of the Bank's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.6. Risk of exposure

The Bank's large exposure to a single entity or a group of related parties, including entities related to the Bank, is an exposure that exceeds 10% of the Bank's capital.

In its business, the Bank takes care of compliance with the regulatory defined exposure limits:

- Exposure to a single client or a group of related parties must not exceed 25% of the Bank's capital;
- The sum of all large Group exposures must not exceed 400% of the Bank's capital.

Defined limits of exposure to one client or a group of related parties also applies to clients relatedto the Bank.

The Bank's exposure to one entity or group of related parties, as well as the exposure to clients related to the Bank, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.7. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Bank is exposed, or the risk of the possibility of adverse effects on the Bank's financial result and capital due to the inability of the Bank members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

- Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Bank to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;
- Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Bank manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Bank's capital, depending on the country's internal rating category. The Bank performs measurement and control of the exposure of the country risk portfolio based on the Banking of claims according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Bank defines the exposure limits individually by country of origin of the debtor.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

4.8.1. Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of RSD

	31.12.2018					31.12.2017	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables due from customers	167,545,674	163,189,685	-	-	163,189,685	153,897,367	151,658,208
Financial Liabilities							
Deposits and other liabilities due to customers	317,229,084	317,294,651	-	-	317,294,651	292,471,640	292,389,981

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Bank would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Bank. The fair value of investment securities held to maturity is estimated using market prices or by using discounted cash flow models based on current market interest rates offered for instruments of a similar product. Held-to-maturity investments are matured and book values are equall to their fair value.

4.8. Fair value of financial assets and liabilities (continued)

4.8.2. Financial instruments measured at fair value

In thousands of RSD

	31.12.2018				31.12.2017			
Finacial assets	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit and loss in RSD	459,586	1,197,681	-	1,657,268	-	-	-	-
Financial assets at fair value through profit and loss in foreign currency	318,499	2,838,113	-	3,156,612	-	-	-	-
Financial assets at fair value through other comprehensive income in RSD	-	51,916,780	-	51,916,780	-	-	-	-
Financial assets at fair value through other comprehensive income in foreign currency	12,476,019	63,725,398	249,590	76,451,007	-	-	-	-
Financial assets at fair value through profit and	-	-	-	-	417,643	4,852,066	-	5,269,709
Securities available for sale (in RSD)	-	-	-	-	-	33,137,523	-	33,137,523
Securities available for sale (in foreign currency)	-	-	-	-	-	78,548,757	332,778	78,881,535
Total	**13,254,104**	**119,677,972**	**249,590**	**133,181,667**	**417,643**	**116,538,346**	**332,778**	**117,288,767**

Level 1 comprises financial instruments with whom it can be traded on the stock exchange, while level 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).The fair value of assets for which no direct trading information is available is assigned to level 3.

4. RISK MANAGEMENT (continued)

4.9. Capital Management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the goal of capital management is the smooth realization of the Bank's business policy objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main objectives of capital management are:

- maintaining of the minimum regulatory requirement (EUR 10 million);
- maintenance of individual capital buffers;
- respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- maintaining confidence in security and business stability;
- realization of business and financial plans;
- supporting the expected growth in placements;
- enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The Bank's regulatory capital represents the sum of Tier 1 capital (composed of the Common Equity Tier 1 capital and the additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratio represent the ratio of capital (total, Tier 1 or Common Equity Tier 1) of the Bank and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks (including foreign exchange and position risk), operational risk and other risks from Pillar I. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries are determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational riskis calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

Capital adequacy ratios

	In thousands of RSD	
	31.12.2018	**31.12.2017**
Tier 1 capital	58,512,822	55,122,806
Common Equity Tier 1 capital	58,139,312	54,749,296
Additional Tier 1 capital	373,510	373,510
Tier 2 capital	-	-
Deductible items of capital	(1,473,139)	(3,992,144)
Capital	**57,039,683**	**51,130,662**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	161,828,271	146,903,022
Risk exposure amount for operational risk	31,379,213	31,680,737
Risk exposure amount for market risks	2,281,232	4,761,814
Capital adequacy ratio (min. 14.26%)	**29.18%**	**27.89%**
Tier 1 capital adequacy ratio (min. 12.26%)	**29.18%**	**27.89%**
Common Equity Tier 1 capital adequacy ratio (min. 10.76%)	**28.99%**	**27.68%**

During 2018, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

By the Capital Management Strategy and Plan, the Bank ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2018, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

- Strategic goals and the period for their realization;
- A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- Procedures for planning an adequate level of available internal capital;
- The way to reach and maintain an adequate level of available internal capital;
- Restrictions on available internal capital;
- Demonstrating and explaining the effects of stress testing on internal capital requirements;
- Allocation of capital;
- Business plan in case of occurrence of unforeseen events.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the Bank;
- is involved in the Bank's management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process in the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:

    a. capital and available internal capital;
    b. minimum capital requirements and internal capital requirements for individual risks;
    c. the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of the placement aims ensure a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

Individual assessment

The Bank assesses the impairment allowance for each individually significant placement with the default status (risky placement, sub-category risk 4D, 4DD and 5 according to the internal rating system) , ie placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, a new assessment of the impairment of placements is made.
The materiality threshold is determined by the Bank on the basis of an analysis of the value structure of the portfolio by types of customers and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

5. USE OF ASSESSMENT (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank , due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information to which the Bank has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

5. USE OF ASSESSMENT (continued)

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Bank also determines the probable loss for unused commitments, for which there is not unconditionall and without prior notice, possibile cancelation the contracted obligation. When calculating provisions based on unused commitments, the Bank uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Bank performs valuation of financial instruments by:

- fair value through profit and loss
- fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through profit and loss are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition. With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity. The amounts shown in the other comprehensive income can not be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

5. USE OF ASSESSMENT (continued)

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensice income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.
- Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.
- The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.
- If the Bank settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

The concept of fair value

When measuring fair values, the Bank identifies methods/techniques that need to maximize the use of observable observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Bank determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Bank performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

5. USE OF ASSESSMENT (continued)

In the event that the market for financial instruments is not active, fair value is determined using methtology assessment. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyzes, and other alternative methods. The selected assessment methodology maximizes the use of market data, is based on the least possible extent on the Bank-specific estimates, includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments , based on Politics and Strategy risk management .

6. SEGMENT REPORTING

The Bank has three operating segments – profit centers, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

When considering profitability / results of each segment, besides income and expenses generated from business with clients, income and expenses from internal relations calculated using transfer prices that are determined based on market price (net income/expenses from internal relations), are included.

A decisive impact on the result in 2018 had indirect impairment income which amounted to RSD 9,493 thousand (of which the collected impaired receivables amounted to RSD 329,451 thousand).

Also, on the basis of the results, in addition to the indirect impact of net income and net write-down is a gain arising from the cessation of recognition of financial instruments which are valued at depreciation values in the amount of 526,547 thousand RSD on the grounds selling placement more clients.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at the Bank level amounted to RSD 7,353,212 thousand and make up 70% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

To the segment of retail banking refer the amount of RSD 5,764,006 thousands of direct costs (78% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2018, the Bank realized pre-tax profit in the amount of RSD 8,121,073 thousand.

6. SEGMENT REPORTING (continued)

Operating segments report for 2018 is provided below:

in RSD thousand

Revenues and expenses	**Retail Banking**	**Corporate Banking**	**Investment and Interbank operations**	**Other**	**Total**
Interest income	6,680,347	2,461,416	4,603,145	-	13,744,908
Interest expenses	(630,059)	(178,255)	(101,956)	-	(910,270)
Net interest income	6,050,288	2,283,161	4,501,189	-	12,834,638
Net income/expenses from related party transactions	(727,305)	(601,012)	1,328,317	-	-
Net fee and commission income	3,835,447	757,668	617,034	-	5,210,149
Profit before impairment allowance	**9,158,430,**	**2,439,817**	**6,446,540**	**-**	**18,044,787**
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	9,493
Profit before operating expenses	**9,132,912**	**2,462,270**	**6,459,098**	**-**	**18,054,280**
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(7,353,212)
Net foreign exchange gains/losses	-	-	(7,458)	-	(7,458)
Net other income and expenses	(174,451)	488,639	233,847	-	548,035
Profit before indirect operating expenses	**3,194,455**	**1,540,788**	**6,506,402**	**-**	**11,241,645**
Indirect operating expenses	(1,590,128)	(1,193,677)	(336,767)	-	(3,120,572)
Profit before tax	**1,604,327**	**347,111**	**6,169,635**	**-**	**8,121,073**
Assets per segment					
Cash and cash funds held with the central bank	-	-	63,595,710	-	63,595,710
Loans and receivables due from banks and other financial institutions	-	-	18,477,729	-	18,477,729
Loans and receivables due from customers	91,855,167	75,690,507	-	-	167,545,674
Investment securities	-	-	133,177,598	-	133,177,598
Other	-	-	2,611,859	15,757,411	18,369,270
	91,855,167	**75,690,507**	**217,862,895**	**15,757,411**	**401,165,980**
Liabilities per segment					
Liabilities to banks	-	-	5,662,748	-	5,662,748
Obligations to clients	261,120,783	49,937,553	6,170,748	-	317,229,084
Other	-	-	-	10,713,635	10,713,635
	261,120,783	**49,937,553**	**11,833,496**	**10,713,635**	**333,605,467**

Loans to micro clients are presented within Retail banking segment. Indirect operating expenses refer to expenses that are not controlled by the business Segment

6. SEGMENT REPORTING (continued)

Operating segments report for 2017 is provided below:

in RSD thousand

Revenues and expenses	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Interest income	6,367,966	2,649,990	5,034,480	-	14,052,436
Interest expenses	(880,868)	(224,091)	(501,280)	-	(1,606,239)
Net interest income	5,487,098	2,425,899	4,533,200	-	12,446,197
Net income/expenses from related party transactions	(886,255)	(768,155)	1,654,410	-	-
Net fee and commission income	3,198,742	1,290,502	592,982	-	5,082,226
Profit before impairment allowance	**7,799,585**	**2,948,246**	**6,780,592**	**-**	**17,528,423**
Net gains/losses from impairment allowance	(310,881)	266,530	62,234	-	17,883
Profit before operating expenses	**7,488,704**	**3,214,776**	**6,842,826**	**-**	**17,546,306**
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(7,639,242)
Net foreign exchange gains/losses	-	-	(56,358)	-	(56,358)
Net other income and expenses	(82,584)	557,765	55,202	-	530,383
Profit before indirect operating expenses	**1,622,284**	**2,099,822**	**6,658,983**	**-**	**10,381,089**
Indirect operating expenses	(1,612,287)	(1,237,636)	(343,916)	-	(3,193,839)
Profit before tax	**9,997**	**862,186**	**6,315,067**	**-**	**7,187,250**
Assets per segment					
Cash and cash funds held with the central bank	-	-	49,840,887	-	49,840,887
Loans and receivables due from banks and other financial institutions	-	-	29,543,789	-	29,543,789
Loans and receivables due from customers	81,512,171	72,385,196	-	-	153,897,367
Investment securities	-	-	117,288,767	-	117,288,767
Other	-	-	2,611,859	16,000,869	18,612,728
	81,512,171	**72,385,196**	**199,285,302**	**16,000,869**	**369,183,538**
Liabilities per segment					
Liabilities to banks	-	-	4,532,505	-	4,532,505
Obligations to clients	230,900,337	52,610,572	8,960,731	-	292,471,640
Other	-	-	-	8,919,338	8,919,338
	230,900,337	**52,610,572**	**13,493,236**	**8,919,338**	**305,923,483**

Loans to micro clients are presented within Retail banking segment.Indirect operating expenses refer to expenses that are not controlled by the business segment

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable interest rate financial instruments.

(ii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect.

8. NET INTEREST GAINS

Net interest income includes:

		(000) RSD
	Year ended	**31 December**
	2018	**2017**
Loans and receivables due from banks (REPO Placement)	245,310	302,541
Loans and receivables due from customers	9,141,760	9,017,954
The National Bank of Serbia (liquid assets deposited and mandatory reserves	283,703	371,056
Investment securities	4,074,135	4,360,885
Total interest income	**13,744,908**	**14,052,436**
Deposits from and liabilities due to banks and other financial institutions	18,773	100,081
Deposits from and liabilities due to customers	812,122	1,112,608
Borrowings received	79,375	393,550
Total interest expenses	**910,270**	**1,606,239**
Net interest income	**12,834,638**	**12,446,197**

Total interest income and expenses calculated using the effective interest rate method presented in the table above relate to financial assets and liabilities other than those at fair value through profit or loss.

9. NET GAINS FROM FEES AND COMMISSIONS

Net fee and commission income includes:

(000) RSD

	Year ended 31 December 2018	2017
Fees and commission income in domestic currency		
Payment transfer operations	3,577,857	3,243,428
Fees on issued loans and guarantees - retail customers	20,939	28,845
Fees on issued loans and guarantees - corporate customers	93,582	152,973
Fees on purchase and sale of foreign currencies	410,146	455,964
Brokerage and custody fees	31,343	37,390
Fees arising from card operations	2,188,083	1,795,591
Credit Bureau processing fees	69,291	87,771
Other banking services	481,160	544,317
	6,872,401	**6,346,279**
Fees and commission income in foreign currencies		
Payment transfer operations	101,003	109,763
Fees on issued loans and guarantees - corporate customers	8,772	9,250
Brokerage and custody fees	20,858	12,778
Fees arising from card operations	204,768	221,473
Other banking services	70	673
	335,471	**353,937**
Total	**7,207,872**	**6,700,216**
Fee and commission expenses in domestic currency		
Payment transfer operations	135,377	125,732
Fees arising on purchase and sale of foreign currencies	32,831	64,340
Fees arising from card operations	931,307	770,319
Credit Bureau processing fees	64,462	78,149
Other banking services	132,197	139,701
	1,296,174	**1,178,241**
Fee and commission expenses in foreign currencies		
Payment transfer operations	79,817	72,877
Fees arising from card operations	577,283	329,074
Other banking services	44,449	37,798
	701,549	**439,749**
	1,997,723	**1,617,990**
Net fee and commission income	**5,210,149**	**5,082,226**

10. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the financial assets held for trading include:

	Year ended 2018	(000) RSD 31 December 2017
Gains on the sales of securities and other financial assets held for trading – SWAP	11,915	-
Gains on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	22,647	51,739
Gains on the fair value adjustment of securities – investment units	9,586	12,643
	44,148	64,382
Losses on the sales of securities and other financial assets held for trading – SWAP	-	(7,845)
Losses on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	(72)	-
Net gain/loss	**44,076**	**56,537**

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gain/loss on the grounds of termination of recognition consists of:

	Year ended 2018	(000) RSD 31 December 2017
Gains arising from the cessation of recognition that Finn. instr are valued at fair value through Other Comprehensive Income	86,991	44,534
Gains arising from the cessation of recognition of securities at fair value through income statement	162,425	47,261
Losses arising from the cessation of recognition that Fin. instr are valued at fair value through Other Comprehensive Income	(688)	(211)
Losses from the sale of securities at fair value through income statement	(18,534)	-
Net gain/loss	**230,194**	**91,584**

Gains arising from the cessation of recognition that finance instruments are valued at fair value through Other Comprehensive Income in the amount of 86.991 thousand dinars refer to bonds of the Republic of Serbia, of which in dollars in the amount of one thousand dinars 50.078 and in a foreign currency totalling 36.913 thousands of dinars.

Gains arising from the cessation of recognition of securities and other investments at fair value through income statement in the amount of 162,425 thousand dinars applies to: bonds of the Republic of Serbia in dinars in the amount of 78.148 thousand dinars, the bonds of the Republic of Serbia foreign currency amounting to 80,133 thousand dinars and investment units in total of 4,144 thousand dinars.

Losses arising from derecognition of financial instruments which are measured at fair value through the Other Comprehensive Income of 688 thousand dinars applies to: bonds of the Republic of Serbia in dinars to the tune of 353 thousand dinars and bonds of the Republic of Serbia in foreign currency amounting to 335 thousand dinars.

Losses arising from derecognition of securities and other investments at fair value through income statement amounting to 18,534 thousand dinars applies to: bonds of the Republic of Serbia in dinars worth of 298 thousand RSD, the bonds of the Republic of Serbia in a foreign currency of 9,142 thousand dinars and selling foreign exchange SWAP arrangement amountin 9,094 thousand dinars.

12. NET EXCHANGE RATE LOSSES AND LOSSES ON AGREED CURRENCY CLAUSE

	Year ended 31 December 2018	(000) RSD 2017
Positive currency clause effects-corporate entities	639,208	1,325,087
Positive currency clause effects – value adjustment of securities	2,627	7,533
Foreign exchange gains – value adjustment of liabilities	5,503	17,989
Positive currency clause effects – retail customers	706,052	427,235
Foreign exchange gains	555,299	12,598,243
	1,908,689	**14,376,087**
Negative currency clause effects-corporate entities	(787,602)	(3,575,513)
Negative currency clause effects – value adjustment of securities	(3,357)	(24,147)
Negative currency clause effects – value adjustment of liabilities	(4,636)	(4,170)
Negative currency clause effects – retail customers	(664,949)	(2,546,402)
Foreign exchange losses	(455,603)	(8,282,213)
	(1,916,147)	**(14,432,445)**
Net expense	**(7,458)**	**(56,358)**

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net income from reduction in impairment of financial assets relates to:

	Year ended 31 December 2018	(000) RSD 2017
Impairment allowance of financial assets measured at amortised cost	(5,726,589)	(11,106,990)
Provisions for off-balance sheet items	(360,293)	(276,066)
Impairment allowance for debt securities measured through other comprehensive income	(80,945)	-
Reversal of impairment allowance of financial assets valued at amortised cost	5,487,456	10,340,416
Reversal of provisions for off-balance sheet items	305,089	321,929
Income from collection of receivables previously written-off	329,451	738,594
Gains from Securities at fair value through Other Comprehensive Income	55,324	-
Net gain	**9,493**	**17,883**

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

At the position Expense of indirect write-offs the Bank recorded impairment of the foreclosed assets in the amount of 96,538 thousand dinars (note 32) based on fair value appraisals of immovable property and equipment by certified valuer, in accordance with the internal Act of the Bank.

In the course of 2018 the Bank collected written off receivables in the amount of 329,451 thousand dinars, which for the most part relate to debt collection from off-balance records for previous write off of on-balance to off-balance, out of which collection from retail clients amounts to 134,263 thousand dinars, and the remained of 195,188 thousand dinars refers to the collection of loans from legal entities.

By the end of January 2019 the Bank did not make materially significant collections from imapaired placements that would affect the reversal of provisions.

Effects arising from the credit risks of debt securities in the amount of net expenditures 25,621 thousand dinars the Bank recognised in equity in the position losses of the basis of debt instruments (expenses of debt Securities at fair value through Other Comprehensive Income in the amount of 80,945 thousand dinars and income on the same basis in amount of 55,324 thousand dinars). These positions are excluded from the table below.

The effect of the first application of the IFRS 9 correction 01.01.2018 I**n thousands,RSD**

Impairment allowance of financial assets measured at amortised cost i including the effect of the change in the provision for off-balance sheet assets	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
949,746	211,947	1,161,693

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Movement on accounts of Writte-off and provision for off-balance

	Loans and receivables due from banks (Note 25.2)	Loans and receivables due from customers (Note 26.2)	Investment securities (Notes 24)	Investments in Ssupsidiers (Note 27)	Other assets (Note 32)	Off-balance sheet liabilities (Note 36)	Total
Balance as at January 1st, 2018	**202,558**	**18,034,599**	**3**	**2,869,029**	**2,456,863**	**124,392**	**23,687,444**
Correction of the opening balance of IFRS 9 - correction of the results in equity	25.260	752.052	1,828	-	75.248	95.358	949.746
Correction of the initial balance of 100% impaired shares	-	-	-	-	-	(504,732)	(504.732)
Corrected balance as at January 1st, 2018	227.818	18.786.651	1.831	2.869.029	2.027.379	219.750	24.132.458
New impairment allowance	66,805	5,431,870	586	-	227,328	360,293	6,086,882
Decrease in impairment allowance	(76,584)	(5,119,334)	(818)	-	(290,720)	(305,089)	(5,792,545)
Foreign exchange effects	9,171	(11,737)	(5)	-	117	-	(2,454)
Write-offs	-	(5,124,786)	-	-	(4,226)	-	(5,129,012)
Other changes	827	186,643*	-		(7,771)	-	179,699
Balance as of December 31, 2018	**228,037**	**14,149,307**	**1,594**	**2,869,029**	**1,952,107**	**274,954**	**19,475,028**

*effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2018 the Bank increased net expenses from impairment of placements at amortized cost and off-balance provisions in the amount of 294,337 thousand dinars. Among other changes on the impairment accounts the amount of 5,129,012 thousand dinars refers to permanent write-off that the Bank is carried out in 2018, i.e. transfer from balance to off balance records on the basis of the decisions of the NBS of the accounting write off.

14. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

		(000) RSD
	Year ended	31 December
	2018	2017
Net gains from derecognition of the financial instruments measured at amortised cost	526,547	-
Net gain	**526,547**	-

Gain on this basis in 2018 relates entirely to the sale of claim from one customer on what grounds the Bank received in the amount of EUR 12.9 million or 1,522,765 thousand dinars. On the basis of the transaction has a positive impact on income statement of profit and loss in the amount of 526.547 thosuand dinars.

15. NET GAINS FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

		(000) RSD
	Year ended 31 December	
	2018	2017
Gains on sales of Jubmes bank shares	-	306
Net gain	**-**	**306**

16. OTHER OPERATING INCOME

		(000) RSD
	Year ended 31 December	
	2018	2017
Other income from operations	145,233	174,837
Revenues from dividends and shares	10,736	9,136
Net gain	**155,969**	**183,973**

In the other operating income in the amount of 145,233 thousand dinars, the most significant amounts relate to revenue from lease of immovable property, including advances received for rental in the amount of 68,272 thousand dinars and refunds of court costs and utility costs in the amount of 49,183 thousands dinars.

In the course of 2018 the Bank received a dividend on the basis of shares and action for trading of 10,736 thousand dinars (2017: 9,137 thousand dinars) which form part of the positions of Other income, and dividends from shares in the VISA Inc. in the amount of 6,154 thousand dinars, Dunav Osiguranje ADO of 3,363 thousand dinars and Mastercard of 1,219 thousand dinars.

17. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, fees, salaries and other personal expenditures consist of:

		(000) RSD
	Year ended 31 December	
	2018	2017
Net salaries	2,630,690	2,733,546
Net benefits	463,408	435,931
Payroll taxes	381,607	402,439
Payroll contributions	822,864	830,100
Considerations paid to seasonal and temporary staff	6,141	11,587
Provisions for retirement benefits – net (Note 36)	80,266	33,809
Other staff costs	57,823	72,785
Total	**4,442,799**	**4,520,197**

18. DEPRECIATION/AMORTIZATION CHARGE

(000) RSD

	Year ended 31 December 2018	2017
Amortization charge – intangible assets (Note 28.2)	139,188	143,181
Depreciation charge – property and equipment (Note 29.2)	376,772	379,746
Depreciation charge – investment property (Note 30.1)	36,028	40,655
Total	**551,988**	**563,582**

19. OTHER INCOME

Other income are:

	Year ended 31 december 2018	2017
Income from reversal of unused provisions for litigations and other liabilities	134,110	25,426
Gains from the sale of equipment / real estate	-	6,923
Income from decrease of liabilities	40,650	67,143
Surpluses	-	3
Other income	105,469	654,309
Total	**280,229**	**753,804**

In the positions of other income in 2018, the most significant items are:

- On the basis of litigation finished in favour of the Bank or disputes temporarily ceased until finalization of related case in the amount of 134,110 thousand dinars
- On the grounds of reducing liabilities in the amount of 40,650 thousand dinars that are result of recognition of other immaterial commitment for inactive facilities, local currency and foreign currency accounts of natural persons who in the course of 2018 meet the requirements prescribed by decision of the Executive Committee. In the case of subsequent client requests for payments of the same obligations will be made at the expense of expenditures of the Bank
- From an insurance company for finance and compensation costs on the basis of a court settlement in the amount of 63,405 thousand dinars,
- Interest payments from previous years – from retail clients in total of 16,260 thousand dinars
- interest payments from previous years – from corpotate clients in total of 14,251 thousand dinars

20. OTHER EXPENSES (continued)

Other expenses include:

	(000) RSD	
	Year ended 31 December	
	2018	2017
Cost of materials	334,632	367,932
Cost of production services	1,877,932	2,033,338
Non-material costs (without taxes and contributions)	2,432,612	2,475,068
Taxes payable	147,540	129,512
Contributions payable	740,120	751,661
Other operating costs	26,427	25,600
Other expenses	304,928	262,117
Losses arising from disposal and write-off of fixed assets and Intangible investments	12,405	-
Losses on the valuation of property and equipment, investment property and assets ment for sale (Note 30 and 31)	20,410	86,708
Provisions for litigations (Note 36)	270,971	173,187
Total	**6,167,977**	**6,305,123**

a) Other expenses

Within the position of other expenditures in the amount of RSD 304,928 thousand, among others are recorded:

- expenditures on the basis of provisions for litigation in the amount of 270,971 thousand dinars
- expenditure arising from paying invoice insurance company life insurance policies for clients in favour of the Bank in the amount of 176,422 thousand dinars, and whose payment on its cargo took over the Bank. The specified policies are used as collateral for loans granted to individuals. Also, in this position are listed and expenditures on insurance policies for users of the sets of current accounts and travel insurance international payment cards in the amount of 64,889 thousand dinars and
- losses from depreciation and write-off of fixed assets and intangible assets in the amount of RSD 12,405 thousand

b) Provision for litigations

Expenditures on the basis of provisions for litigation totalling 270,971 thousand dinars (note 36) are result of increased expenditures for thirty-one new case during the year 2018, and increase expenditures for active cases from previous years.

21. PROFIT AFTER TAX

21.1 Components of income taxes as of December 31 were as follows:

		(000) RSD
	Year ended 31 December	
	2018	2017
Deferred income tax benefits	700,754	1,335,828
Deferred income tax expenses	(676,645)	(405,710)
Total	**24,109**	**930,118**

In 2018. and 2017. year of the Bank's stated current income taxes based on the applicable tax regulations.

21.2 Reconciliation of the effective tax rate is presented in the table below:

	2018	2018	2017	In 000 RSD 2017
Profit for the year before taxes		**8,121,073**		**7,187,250**
Tax calculated using the local income tax rate	15%	1,218,161	15%	1,078,087
Expenses not recognized for tax purposes	1.05%	85,015	-0.41%	(29,449)
Tax effects of the net capital losses /gains	-0.01%	(621)	-0.01%	(562)
Tax effects of income reconciliation	-0.24%	(19,773)	0.03%	1,868
Tax effects on IFRS 9	-0.43%	(34,851)	-	-
Tax credit received and used in the current year	-7.80%	(632,773)	-5.13%	(368.666)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-7.57%	(615,158)	-9.48%	(681,278)
Tax effect adjustments (used and new ones)	-0.30%	(24,109)	-12.94%	(930,118)
Tax effects stated within the income statement		**24,109**		**930,118**

21.3 Movements in deferred taxes as at December 31 are presented as follows:

		(000) RSD
	Year ended 31 December	
	2018	2017
Balance as of January 1	857,096	(23,592)
Occurrence and reversal of temporary differences	(16,129)	880,688
Balance as of December 31	**840,967**	**857,096**

In the course of 2018. years, the Bank has not paid taxes on the profit, given that when tax on income for 2017 as not stated the obligation of paying taxes, for backing tax obligations transfer tax loss.

21. PROFIT AFTER TAX (continued)

21.4.1 Deferred tax assets and liabilities

Deferred tax assets and liabilities relate to:

(000) RSD

	2018			2017		
	Asset	Liability	Net	Asset	Liability	Net
Difference in net carrying amount of tangible assetsfor tax and financial reporting purposes	69,359	-	69,359	112,277	-	112,277
Transfer tax losses	878,000	-	878,000	867,146	-	867,146
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	4.885	(570,187)	(565,302)	624	(530,171)	(529,547)
Long-term provisions forretirement benefits	49,098	-	49,098	35,322	-	35,322
Impairment of assets	295,225	-	295,225	265,532	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	1,183	-	1,183	1,192	-	1,192
Accrued and unpaid public duties	13	-	13	-		-
Provisions for litigations	135,023	-	135,023	118,797	-	118,797
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	-	(21,632)	(21,632)	-	(13,623)	(13,623)
Total	**1,432,786**	**(591,819)**	**840,967**	**1,400,890**	**(543,794)**	**857,096**

Transfer tax losses that are not recorded in the books of the Bank and on the basis of which they formed the tax funds, and can be used to cover the taxes on profits in the coming period in total of 7,979,816 thousand dinars and relate partially to the tax loss from 2016.

Deferred tax assets have not been formed or the tax credits on the basis of investment in fixed assets in the amount of 15,692 thousand RSD nor on tax credits for intercompany dividends of 13,154 thousand RSD.

21.4.2 Overview of tax credits for which deferred tax assets were not recognized:

(000) RSD

Type of tax credit	Year	Amount as of 31.12.2018	Amount as of 31.12.2017	Expiration date for use
	2014	-	-	2019
	2015	-	2,533,717	2020
Tax losses carried forward	2016	7,979,816	9,719,742	2021
Total tax losses carried forward		**7,979,816**	**12,253,459**	
Total tax losses carried forward		1,196,972	1,838,019	2019 -2021
Impact of tax losses on future income tax (15%)	2013	15,692	15,692	2023
Tax credit on the basis of investment in fixed assets	2014	13,154	13,154	2019
Tax credit on the basis of intercompany dividends		**1,225,818**	**1,866,865**	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT AFTER TAX (continued)

21.4.3 Movements in temporary difference during 2018 and 2017 are shown as follows:

(000) RSD

2018	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	112,277	(46,444)	3.526	-	69.359
Tax losses carried forward	867,146	10,854	-	-	878,000
Impairment of assets	(529,547)	-	(35,755)	-	(565,302)
Long term provisions for employee benefits	35,322	13,776	-	-	49,098
Actarial gains / (losses)	(13,623)	-	(8,009)	-	(21,632)
Impairment of assets	265,532	29,693	-	-	295,225
Assets based on the payment of other employee liabilities	1,192	(9)	-	-	1,183
Accrued and unpaid public duties	-	13	-		13
Provisions for legal disputes	118,797	16.226	-	-	135,023
Total	**857,096**	**24.109**	**(40,238)**	**-**	**840,967**

2017	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Tax losses carried forward	-	867,146	-	-	867,146
Impairment of assets	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Actarial gains / (losses)	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Assets based on the payment of other employee liabilities	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	**(23,592)**	**930,118**	**(49,431)**	**-**	**857,096**

NOTES TO THE FINANCIAL STATEMENTS
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21. PROFIT AFTER TAX (continued)

21.5 Tax effects relating to Other comprehensive income

(000) RSD

	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair adjustments of equity investments and securities available for sale	54,832	(8,224)	46,608	(241,847)	36,277	(205,570)
Net decrease due to actual losses	53.387	(8,008)	45,379	24,648	(23,517)	1,131
Valuation of property	-	3,526	3,526	-	(61,917)	(61,917)
Decrease due to fair value adjustments of equity investments and securities available for sale((decrease in equity and securities)	(28,403)	4,260	(24,143)	1,823	(274)	1,549
Total	**79,816**	**(8,446)**	**71,370**	**(215,376)**	**(49,431)**	**(264,807)**

22. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

(000) RSD

	31 December 2018	31 December 2017
In RSD		
Cash on hand	4,242,968	3,043,314
Gyro account	25,485,440	15,047,427
Other RSD cash funds	99	99
	29,728,507	**18,090,840**
In foreign currencies		
Cash on hand	2,956,171	3,875,812
Gyro account	30,910,922	27,874,051
Other cash funds	110	184
	33,867,203	**31,750,047**
Total	**63,595,710**	**49,840,887**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 25.1)	7,690,960	4,348,062
Foreign currency obligatory reserves	(30,910,922)	(27,874,051)
	(23,219,962)	**(23,525,989)**
Cash and cash equivalents reported in statement of cash flows	**40,375,748**	**26,314,898**

22. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK (continued)

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.25% annually. (rates in application since may 2018.)

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015. (Official Gazzete 102/2015), the ratesapplied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied.

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the country of the currency.

Other foreign currency cash in the amount of RSD 110 thousand (2017: RSD 184 thousand) relate to account calculations with the Central Registry of securities for Trade with securities.

23. RECEIVABLES UNDER DERIVATIVES

(000) RSD

	31 December 2018	31 December 2017
Claims arising from changes in fair value of derivatives in dinars-SWAP	4,070	-
Total	**4,070**	**-**

24. SECURITIES

24.1. Securities shall consist of:

(000) RSD

	31 December 2018	31. December 2017
Securities measured at fair value through income statement (in RSD)	1,653,198	2,029,354
Securities measured at fair value through income statement in foreign currency	3,156,612	3,240,355
Total	**4,809,810**	**5,269,709**
Securities measured at fair value through other comprehensive income (in RSD)	52,167,965	33,470,304
Securities measured at fair value through other comprehensive income in foreign currency	76,201,417	78,548,757
Impairment	(1,594)	(3)
Total	**128,367,788**	**112,019,058**
Total	**133,177,598**	**117,288,767**

24.2. Breakdown of financial assets held for trading is provided below:

(000) RSD

	31 December 2018	31 December 2017
Republic of Serbia bonds (in RSD)	1,193,611	1,611,711
Investment units of OIF monetary fund (in RSD)	459,587	417,643
Republic of Serbia bonds (in foreign currencies)	3,156,612	3,240,355
Total	**4,809,810**	**5,269,709**

Investment units as at December 31, 2018 in the total amount of RSD 459,587 thousand refer to investment units KomBank Monetary Fund, Belgrade.

NOTES TO THE FINANCIAL STATEMENTS
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24. SECURITIES (continued)

24.3. The structure of the securities that are valued at fair value through other comprehensive income:

	(000) RSD 31 December 2018	31 December 2017
In RSD		
Republic of Serbia bonds	51,916,780	33,137,523
Bonds of local government (city of Pančevo and municipality of Stara Pazova)	251,185	332,781
Total RSD	**52,167,965**	**33,470,304**
In foreign currencies		
Republic of Serbia bonds	73,841,988	76,766,427
Bonds of foreign banks (Raiffeisen Bank International)	1,702,199	1,782,330
Bonds of foreign States (Republika Srpska)	657,230	
Total in foreign currencie	76,201,417	78,548,757
Total	**128,369,382**	**112,019,061**

Impairment allowance of securities that **are valued at fair value through other comprehensive income:**

	(000) RSD 31 December 2018	31 December 2017
Individual impairment allowance		
Balance at January 1	3	81,710
Correction of the opening balance:		
IFRS 9 – correction results in capital	1,828	-
Adjusted balance as of 1 January 2018	**1,831**	**-**
Change for the year (Note 13)	586	29,813
Effects of the changes in foreign exchange rates (Note 13)	(5)	(3,523)
Reversal (Note 13)	(818)	(27,211)
Permanent write-off	-	(80,786)
Total individual impairment allowance	**1,594**	**3**

NOTES TO THE FINANCIAL STATEMENTS
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24. SECURITIES (continued)

Impairment allowance of securities that are valued at amortised cost:

	31 December 2018	(000) RSD 31 December 2017
Individual impairment allowance		
Balance at January 1	-	84,169
Current year impairment allowance:		
IFRS 9 – correction of results through equity		
Adjusted balance as of 1 January 2018 year	-	
Change for the year	-	-
Effects of the changes in foreign exchange rates	-	-
Reversal	-	-
Permanent write-off	-	(84,169)
Total Individual and Collective Allowance	**-**	**-**

25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

25.1 Loans and receivables due from banks include:

(000) RSD

	31 December 2018	31 December 2017
RSD loans and receivables		
Per repo transactions	1,500,000	15,000,000
Loans for working capital	1,000,000	200,000
Overnight loans	1,260,000	-
Other receivables	15,993	68,549
Prepayments	14,744	18,809
Allowance	(1,127)	-
	3,789,610	**15,287,358**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 22)	7,690,960	4,348,062
Overnight loans	1,587,977	2,144,357
Other loans and receivables due from foreign banks	751,504	665,877
Foreign currency deposits placed with other banks	3,774,544	5,905,905
Prepayments	1,394	2,114
Other receivables	9,684	12,657
Loans to foreign banks (subsidiaries)	101,309	490,815
Secured foreign currency warranties	997,656	889,202
Impairment allowance	(226,909)	(202,558)
	14,688,119	**14,256,431**
Total	**18,477,729**	**29,543,789**

25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

As at 31 December 2018, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 1,500,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 2.31% to 2.59%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.9 % to 3.5% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.05% to 0.20% per annum for the EUR, from 1.2% to 2.5% for USD and 0.13% to CHF.

Interest rates on long-term loans extended revolving foreign dependent banks ranged in scope from 4,089% to 4.09% which is a 1 m EURIBOR plus a fixed share of 4.46%. Long-term loans are dependent on banks at the rate of 2.479 percent to 2.484% or 6M EURIBOR plus a fixed portion of 2.75%.

25.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

(000) RSD

	31 December 2018	31 December 2017
Individual impairment allowance		
Balance at January 1	202,558	309,874
IFRS 9 – correction of results through equity	25,260	-
Adjusted balance as of 1 January 2018	**227,818**	**-**
Update the values in the current year:		
Change for the year (Note 13)	66,805	-
Effects of the changes in foreign exchange rates (Note 13)	9,171	(46,755)
Permanent write-off	-	-
Reversal (Note 13)	(76,584)	(60,561)
Other	827	-
Balance at 31 December	**228,037**	**202,558**

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26. LOANS AND RECEIVABLES DUE FROM CLIENTS

26.1 Loans and receivables due from customers:

(000) RSD

	2018			2017		
	Gross Amount	**Impairment Allowance**	**Carrying Amount**	**Gross Amount**	**Impairment Allowance**	**Carrying Amount**
Corporate customers						
Transaction account overdrafts	752,971	(20,901)	732,070	545,794	(15,523)	530,271
Working capital loans	33,354,044	(4,395,390)	28,958,654	36,079,514	(6,876,228)	29,203,286
Export loans	-	-	-	59,381	-	59,381
Investment loans	32,805,889	(1,269,586)	31,536,303	26,874,796	(2,257,470)	24,617,326
Loans for payments of imported goods and services	2,072,507	(18,613)	2,053,894	2,109,314	(18,892)	2,090,422
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	386,037	(289,188)	96,849	416,502	(261,893)	154,609
Other loans and receivables	36,744,167	(6,894,653)	29,849,514	37,994,559	(7,093,888)	30,900,671
Prepayments	106,661	(19,262)	87,399	138,848	(24,290)	114,558
Accruals	(151,278)	-	(151,278)	(139,210)	-	(139,210)
	106,070,998	**(12,907,593)**	**93,163,405**	**104,079,498**	**(16,548,184)**	**87,531,314**
Retail customers						
Transaction account overdrafts	3,564,677	(173,254)	3,391,423	3,795,909	(422,347)	3,373,562
Housing loans	39,641,860	(742,907)	38,898,953	37,546,956	(586,966)	36,959,990
Cash loans	30,684,586	(247,009)	30,437,577	24,712,127	(389,565)	24,322,562
Consumer loans	131,729	(1,069)	130,660	126,019	(2,712)	123,307
Other loans and receivables	1,915,763	(74,749)	1,841,014	2,014,181	(81,801)	1,932,380
Prepayments	249,874	(2,726)	247,148	218,284	(3,024)	215,260
Accruals	(564,506)	-	(564,506)	(561,008)	-	(561,008)
	75,623,983	**(1,241,714)**	**74,382,269**	**67,852,468**	**(1,486,415)**	**66,366,053**
Balance as of December 31	**181,694,981**	**(14,149,307)**	**167,545,674**	**171,931,966**	**(18,034,599)**	**153,897,367**

26. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

26.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

	31 December 2018	31 December 2017
Individual impairment allowance		
Balance at January 1	17,031,882	28,219,164
Impairment in the current year		
IFRS 9 – correction of result through equity	109,895	-
Adjusted balance as of 1 January 2018	**17,141,777**	**-**
Change for the year (Note 13)	1,672,859	6,427,100
Reclassification from Group impairment allowance	346,947	194,318
Effects of the changes in foreign exchange rates (Note 13)	(6,146)	(381,063)
Reversal (Note 13)	(1,773,670)	(5,617,811)
Permanent write-off	(4,518,125)	(11,811,840)
Other(Note 13)	1,736	2,014
Individual impairment allowance	**12,865,378**	**17,031,882**
Group impairment allowance		
Balance at January 1	1,002,717	1,425,841
Impairment in the current year		
IFRS 9 – correction of result through equity	642,157	-
Adjusted balance as of 1 January 2018	**1,644,874**	**-**
Change for the year (Note 13)	3,759,011	4,165,517
Reclassification from Individual impairment allowance	(346,947)	(194,318)
Effects of the changes in foreign exchange rates (Note 13)	(5,591)	(391,172)
Permanent write-off	(3,345,664)	(4,505,417)
Reversal (Note 13)	(606,661)	(277,229)
Other	184,907	779,495
Total Group impairment allowance	**1,283,929**	**1,002,717**
Balance as of December 31	**14,149,307**	**18,034,599**

Loans and receivables due from retail customers

During 2018, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 1.80% to 14.50% per annum.
Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.50% to 9.60% annually.
Long-term loans to retail customers in foreign currency are approved for the period from thirteen to thirty-sixteen months with nominal interest rates ranging from 1.50% to 9.95% annually.

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.35% to 10.20% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.30% to 6.00% annually.

26. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Long-term loans in RSD were approved for a period from thirteen months to thirty months with an interest rate from 2.25% to 5.50% per annum. Long-term loans in foreign currency are approved for a period up to hundred and forty months with an interest rate of EUR from 1.05% to 4.95% per annum.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

27. INVESTMENTS TO SUBSIDIARIES

	December 31, 2018	December 31, 2017
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Podgorica	2,366,273	2,366,273
Impairment allowance	(2,869,029)	(2,869,029)
Total	**2,611,859**	**2,611,859**

Effects of conducted appraisals of investments in subsidiaries

Permanent sateks in subsidiaries - banks were impaired in 2016 in the amount of RSD 2,869,029 thousand, in accordance with the requirements of IAS 36, based on an estimate of their fair value by an independent appraiser. Impairment was recognized at the expense of the Bank's expense.

Investments in the permanent stakes of subsidiary banks have been subject to impairment testing at the end of 2018, as IAS 36 requires a new estimate of fair value only where there is evidence that the value of the asset can be further reduced (or that the previously recognized impairment
has been significantly reduced) .Based on the conducted testing and the achieved movement of the balance sheet positions of the subsidiary banks in 2018, and taking into account the development plans of the banks, the Bank's conclusion is that there's no noticeable and clear indications of potential further impairment of these investments, but also there's no significant reduction in previously recognized impairment.

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28. INTANGIBLE ASSETS

28.1 Intangible assets comprise:

(000) RSD

	December 31, 2018	December 31, 2017
Intangible assets	384,273	340,660
Intangible assets in progress	172,778	119,603
Total	**557,051**	**460,263**

28.2 Movements on the account of intangible assets in 2018 and 2017 are presented below:

(000) RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2017	1,967,554	1,065	1,968,619
Additions	-	240,937	240,937
Transfers	122,399	(122,399)	-
Balance as of December 31, 2017	**2,089,953**	**119,603**	**2,209,556**
Balance as of January 1, 2018	2,089,953	119,603	2,209,556
Additions	-	235,976	235,976
Transfers	182,801	(182,801)	-
Disposals	(4,948)	-	(4,948)
Balance as of December 31, 2018	**2,267,806**	**172,778**	**2,440,584**
Impairment			
Balance as of January 1, 2017	1,606,112	-	1,606,112
Depreciation(Note 18)	143,181	-	143,181
Balance as of December 31, 2017	**1,749,293**	**-**	**1,749,293**
Balance as of January 1, 2018	1,749,293	-	1,749,293
Depreciation(Note 18)	139,188	-	139,188
Disposals	(4,948)	-	(4,948)
Balance as of December 31, 2018	**1,883,533**	**-**	**1,883,533**
Current value			
Balance as of December 31, 2017	**340,660**	**119,603**	**460,263**
Balance as of December 31, 2018	384,273	**172,778**	**557,051**

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Property, plant and equipment comprise:

(000) RSD

	December 31, 2018	December 31, 2017
Property	4,898,896	4,950,836
Equipment	520,557	571,847
Investments in progress	199,625	132,565
Total	**5,619,078**	**5,655,248**

29.2 Movements on the account of property and equipment in 2018 and 2017 are presented below:

(000) RSD

	Property	Equipment	Investment in progress	Total
Cost				
Balance as of January 1, 2017	**7,058,048**	**3,366,895**	**48,839**	**10,473,782**
Additions	-	-	330,305	330,305
Transfer from investments in progress	57,924	192,884	(246,579)	4,229
Transfors to assets held for sales	(176,051)	-	-	(176,051)
Transfer from equipment	787	(787)	-	-
Disposals	(64,989)	(71,457)	-	(136,446)
Sales	-	(13,671)	-	(13,671)
Balance as of December 31, 2017	**6,875,719**	**3,473,864**	**132,565**	**10,482,148**
Balance as of January 1, 2018	**6,875,719**	**3,473,864**	**132,565**	**10,482,148**
Additions	-	-	304,152	304,152
Transfer from investments in progress	67,899	169,193	(237,092)	-
Transfer from investment PPE	49,341	-	-	49,341
Disposals	(42,228)	(123,758)		(165,986)
Appraisal (revaluation) – decrease		(23,058)	-	(23,058)
Balance as of December 31, 2018	**6,950,731**	**3,496,241**	**199,625**	**10,646,597**
Impairment				
Balance as of January 1, 2017	**1,836,794**	**2,780,530**	**-**	**4,617,324**
Depreciation(Note 18)	173,892	205,854		379,746
Transfors to assets held for sales	(25,486)	-	-	(25,486)
	(60,317)	(70,720)	-	(131,037)
Sales		(13,647)		(13,647)
Balance as of December 31, 2017	**1,924,883**	**2,902,017**	**-**	**4,826,900**
Balance as of January 1, 2018	**1,924,883**	**2,902,017**	**-**	**4,826,900**
Depreciation(Note 18)	159,206	217,566	-	376,772
Disposals	(32,254)	(121,327)	-	(153,581)
Appraisal (revaluation) – decrease	-	(22,572)		(22,572)
Balance as of December 31, 2018	**2,051,835**	**2,975,684**	**-**	**5,027,519**
Carrying value				
Balance as of December 31, 2017	**4,950,836**	**571,847**	**132,565**	**5,655,248**
Balance as of December 31, 2018	**4,898,896**	**520,557**	**199,625**	**5,619,078**

29. PROPERTY, PLANT AND EQUIPMENT (continued)

The Bank does not have mortgaged buildings to secure repayment of the loans.

Due to incomplete cadastral books, on 31 December 2018, for 29 cobjects with the present value of RSD 465,649 thousand the Bank still does not have evidence of ownership (the number of facilities includes assets acquired through collection of receivables). The Bank's management takes all necessary measures for the acquisition of ownership papers. Completion of this process depends on the conduct of the competent national authorities.

The Bank has carried out write-off of fixed assets with carrying value of 12,891 thousand RSD during the year, on the basis of disposal of leasehold improvements of 10,040 thousand RSD, while based on the annual inventory count has been disposed unusable fixed assets with carrying value amounting to 2,364 thousand dinars and shortage of 487 thousand dinars.

30.1 Changes in investment in real estate during the 2018 and 2017 are presented in the following table:

	(000) RSD Total
Cost	
Balance as of January 1, 2017	2,448,984
Transfer from investments in progress	-
Transfer to PPE	-
Sales	(117,034)
Assessment – reduction	(79,477)
Balance as of December 31, 2017	**2,252,473**
Balance as of January 1, 2018	**2,252,473**
Sales	
Transfer to PPE	(49,341)
Assessment – reduction	(7,700)
Balance as of December 31, 2018	**2,195,432**
Impairment	
Balance as of January 1, 2017	231,168
Depreciation(Note 18)	40,655
Transfer to PPE	-
Sales	(4,438)
Assessment – reduction	(3,520)
Balance as of December 31, 2017	**263,865**
Balance as of January 1, 2018	263,865
Depreciation(Note 18)	36,028
Sales	
Assessment – reduction	(808)
Balance as of December 31, 2018	**299,085**
Net Book Value	
Balance as of December 31, 2017	**1,988,608**
Balance as of December 31, 2018	**1,896,347**

As of 31 December 2018 the Bank has reported investment properties eith the net book value of 1,896,347 thousand dinars, which comprise lease properities.

During 2018, based on the external appraisals by authorized valuers the Bank recorded reduction of values of investment properties amounting to 6,892 thousands dinars on account of imapirment lossesenja (part of Note 20). The Banks has changed purpose of two properties in Novi Sad and they are now properties used for business purposes. As of 31 December 2018, the net result on the basis of investment property is negative and amounts to RSD 2,618 thousand.

30. INVESTMENT PROPERTY (continued)

Property	Area in м²	Total expenses	Realized rental income	Difference in 000 RSD
Beograd, Trg Politike 1	3,354	(23,710)	9,239	(14,471)
Nis, Vrtiste nova d-zgrada	1,816	(4,313)	-	(4,313)
Nis, TPC Kalča	85	(799)	4,974	4,175
Beograd, Omladinskih brigada 9	15,218	(19,655)	16,487	(3,168)
Sabac, Majur, Obilazni put bb	1,263	(1,742)	-	(1,742)
Lovcenac, Marsala Tita bb	46,971	(2,696)	7,096	4,400
Negotin, Save Dragovica 20-22	658	(583)	-	(583)
Nis, Bulevar 12 Februar bb	816	(380)	4,541	4,161
Beograd, Radnička 22	7,190	(18,189)	18,717	528
Novi Sad, Vardarska 1/B,	291	(1,895)	3,608	1,713
Novi Sad, Bulevar Oslobodjenja 88, 3 lokala	367	(526)	2,316	1,790
Kotor, Stari Grad, Palata beskuca, business office, Br.1	207	(1,007)	5,647	4,640
Beograd, Luke Vojvodica 77a	80	(604)	856	252
		(76,099)	**73,481**	**(2,618)**

31. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(000) RSD

	December 31, 2018	December 31, 2017
Non-current assets held for sale and assets from discontinued operations	227,630	241,148
	227,630	241,148

Non-current assets held for sale:

Property	Area in m²	(000) RSD Carrying Value
Jasika, business premises	75.87	538
Pozarevac, Mose Pijade 2, business office	826.82	27,926
Pozarevac, Mose Pijade 2, business office	880.86	23,107
Vrbas, M. Tita 49, business space	145.56	2,128
Kotor, business space 1 and 2	690.00	91,582
Jastrebac, resort building	687.00	19,388
Jastebac, country house	108.00	1,301
Jastrebac, generator storage	65.00	310
Beograd, Palmira Toljatija 5	637.00	61,350
Total		**227,630**

During 2018, based on the assessments of an authorized external appraisers, a decrease in the value of non-current assets held for sale amounted to RSD 13,518 thousand.

The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

32. OTHER ASSETS

Other assets comprise:

(000) RSD

	December 31, 2018	December 31, 2017
In RSD		
Fee receivables per other assets	106,138	101,231
Inventories	135,901	146,424
Assets acquired in lieu of debt collection	2,268,696	2,299,238
Prepaid expenses	141,291	120,433
Equity investments	1,747,050	1,571,785
Other RSD receivables	3,219,110	3,001,673
	7,618,186	**7,240,784**
Impairment allowance of:		
Fee receivables per other assets	(68,497)	(44,251)
Assets acquired in lieu of debt collection	(949,729)	(860,172)
Equity investments	(446,661)	(504,732)
Other RSD receivables	(850,384)	(935,438)
	(2,315,271)	**(2,344,593)**
In foreign currencies		
Fee receivables per other assets	807	2,104
Other receivables from operations	913,961	729,569
Receivables in settlement	381,106	1,354,121
Other foreign currency receivables	189,655	21,045
	1,485,529	**2,106,839**
Impairment allowance of		
Other receivables from operations	(98,373)	(126,602)
Receivables in settlement	(77,804)	(77,922)
	(176,177)	**(204,524)**
Total	**6,612,267**	**6,798,506**

Throughout regular yearly inventory count, inventories worth 22 thousand dinars have been written off.

32. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

In RSD thousand

	31 December 2018	31 December 2017
Individual impairment allowance		
Balance at January 1	212,592	204,558
Update the values in the current year:		
IFRS 9 – correction of result through equity	13,637	-
Adjusted balance as of 1 January 2018	**226,229**	**-**
Change for the year (Note 13)	10,584	33,502
Effects of the changes in foreign exchange rates (Note 13)	-	(1,056)
Reversal(Note 13)	10,980	(7,547)
Permanent write-off	(4,226)	(16,865)
Individual impairment allowance	**243,567**	**212,592**
Group impairment allowance	2,244,271	2,328,130
Balance at January 1		
IFRS 9 – correction of result through equity	(443,121)	-
Adjusted balance as of 1 January 2018	**1,801,150**	**-**
Change for the year (Note 13)	216,744	451,058
Effects of the changes in foreign exchange rates (Note 13)	117	(9,670)
Reversal (Note 13)	(301,700)	(121,869)
Permanent write-off	-	(2,233)
Other(Note 13)	(7,771)	(401,145)
Total Group impairment allowance	**1,708,540**	**2,244,271**
Balance as of December 31	**1,952,107**	**2,456,863**
Inventory impairment allowance (not exposed to credit risk)	**92,680**	**92,254**
Balance as of December 31	**2,044,787**	**2,549,117**

32. OTHER ASSETS (continued)

a) Equity investments

Other assets also comprise equity investments and are shown in the following table:

In RSD thousand

Equity investments	2018	2017
Equity investments in banks and other financial organizations	80,270	80,270
Equity investments in companies and other legal entities	410,760	464,902
Equity investments in non-resident entities abroad	1,256,020	1,026,613
	1,747,050	**1,571,785**
Impairment allowance of:		
Equity investments in banks and other financial organizations	(80,270)	(80,270)
Equity investments in companies and other legal entities	(366,391)	(424,462)
	(446,661)	**(504,732)**

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly pertain to: 14. October a.d., Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Belgrade Stock Exchange in the amount of RSD 2,246 thousand, Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 32,759 thousand and Politika a.d., Beograd in the amount of RSD 1,899 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 1,020,797 thousand and MASTER Card in the amount of RSD 235,223 thousand.

Impairment allowance of equity investments totaling RSD 446,661 thousand refers to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of 324.874 thousand dinars, Euroaxis bank Moscow worth 78.387 thousand dinars, RTV Politika Belgrade driver, to the tune of thousands of dinars 37.633, Politika a.d. and Dobricevo PPD driver Bridge amounting to 2.563 thousand dinars.

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling RSD 709,270 thousand, operating receivables of RSD 250,989 thousand, receivables which relate to material values acquired in lieu of debt collection of RSD 2,268,696thousand (written off in the amount of RSD 949,729 thousand), advances paid for working capital assets of RSD 28,391 thousand, rental receivables of RSD 368,981 thousand and interest receivables per other assets of RSD 204,498 thousand and receivables from operations per court verdict totaling RSD 209,085 thousand (written off in total, 100%).

Other receivables from operations in foreign currencies totaling RSD 381,106 thousand for the most part pertain to receivables for spot transactions of RSD 227,052 thousand.

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32. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets totaling to RSD 2,268,696 thousand gross, less recorded impairment allowance of RSD 949,729 thousand, with the net carrying value of RSD 1,318,967 thousand relate to:

I Properties foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	*Area in m^2*	*Value*	*Date of acquisition*
Novi Pazar, Kej Skopskih zrtava,44 local	82.95	2,128	27.09.2006.
Gnjilica, field VII class	2,638	56	15.04.2008.
Cacak, Hotel "Prezident", Bulevar oslobodjenja bb	2,278.92	98,456	21.01.2009.
Tivat, Mrčevac-apartment building, auxiliary building	277	4,834	23.12.2009.
Budva, Montenegro, forest, IV class	8,292	88	12.10.2010.
Buce, forest, IV class	974	3,875	27.05.2011.
Prijevor, forest IV class	1,995	4,559	27.05.2011.
Belgrade, 14 Miajla Avramovic, building	925.35	164,228	21.11.2011.
Krusevac, Kosevi, production and office building I.C.P.	12,836	45,433	08.06.2012.
Mladenovac, Sopot-Nemenikuce, field III class	16,633	258	25.06.2012.
Obrenovac, Mislođin, field III class	10,017	1,016	11.07.2012.
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,547	24.07.2012.
Majur, Tabanovačka, field	14,452	1,575	10.08.2012.
Mali Požarevac, large field, field III and IV classes	21,915	309	27.09.2012.
Cuprija, Aleksa Santic 2/24, apartment	72.40	811	15.01.2013.
NIS, Ivana Milutinovica 30, business office	438.39	4,924	23.04.2013.
NIS, Triglavska 3/1, flat	79.80	3,165	04.06.2013.
Mladenovac, field-lug III class	1,142	405	18.07.2013.
NIS, Bulevar 12. februar, outhouse-storage	2,062	39,112	30.07.2013.
Kula,Zeleznicka bb,business office,land	7,959	21,990	01.10.2013.
Prijepolje, Karosevina, sawmill	450	839	08.11.2013.
Total I		**401,608**	

NOTES TO THE FINANCIAL STATEMENTS
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32. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Properties foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	Area in m²	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	552	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	46,813	08.05.2014.
Subotica, Magnetic fields, 17, production hall and warehouse	2,492	44,612	18.07.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,985	31.01.2014.
Kopaonik, House with land	337	3,936	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 6/3	29	2,970	31.01.2014.
Novi Sad, Bulevar oslobođenja 30 and commercial property 7/3	44	4,506	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 8/3	35	3,584	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 9/3	34	3,482	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 10/3	39	3,994	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/22	226	16,430	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	19,463	31.01.2014.
Novi Sad, Tihomira Ostojic, 4, Office 7	134	5,530	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 8	81	4,769	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 9	79	4,651	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office space 10	408	24,703	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	33,601	14.08.2014.
Budva, Reževici, Montenegro, rocks, forest	1,363.20	19,469	22.07.2014.
Budva, Reževici, Montenegro, forest V class	5,638.54	79,502	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	4,360	17.04.2013.
Mladenovac, Americ, field IV class	7,768	245	03.10.2014.
Valjevo, Rađevo selo, warehouse	394	423	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	68	03.10.2014.
Mladenovac, fields, orchards	25,136	519	03.10.2014.
Valjevo, Vojvode Misica 17, family building	106	1,651	25.09.2014.
NIS, Čajnička bb, residential buildings with additional building	825.74	10,369	14.03.2013.
NIS, Sjenička 1, commercial buildings, warehouses, workshops	1,452.73	12,767	14.03.2013.
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	96,957	16.06.2014.
NIS, Sumadijska 1, Office space	504.60	1,746	04.12.2014.
Valjevo, Worker 6, place	69	2,684	28.05.2014.
Prokuplje, field III class	12,347	554	28.08.2015.
Mionica, Prote Zarko Tomovica bb, House	107	1,678	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	270	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	5,312	31.07.2012.
Sokobanja, production hall with land	5,042	22,825	31.07.2012.
Sokobanja, space with land	2,005	656	31.07.2012.
Sokobanja, House with land	4,194	3,547	31.07.2012.
Belgrade, Pivljanina 83, residential buildings	278.52	58,577	23.08.2012.
Divčibare, meadows V class	8,012	4,114	02.12.2015.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	5,507	27.08.2015.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	1,997	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,283	16.05.2013.
Krusevac, century village, a concrete base with land	100,560	131,163	11.03.2016.
Zrenjanin, Bagljas, pasture II class	230	48	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	29,667	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	14,135	23.12.2015.
Cacak, Suvo polje, buildings 1 and 2 with land	1,225	11,564	05.05.2016.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	224	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	307	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	20,622	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Total II		895,111	

32. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	6,799	08.06.2012.
Nis i Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	6,101	31.07.2012.
Paracin, lines for production for coffee	2,512	31.12.2012.
Vranic, lines for production	4,318	09.07.2013.
Total III	**19,730**	

IV Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	59	03.06.2015.
Equipment supplies raw materials	1,523	18.07.2014.
Motor vehicle, installation material	672	13.05.2014.
Other	264	
Total IV	**2,518**	
Total(current value) I + II+ III+ IV	**1,318,967**	

The effect of the impairment of assets acquired through collecting receivables in 2018 is shown in the table:

(000) RSD

Effects of property impairment	83,099
Effects of equipment impairment	13,439
TOTAL	**96,538**

Total negative effect amounted to RSD 96,538 thousand and it was recognized as expense of a period as follows (note 13):

- For properties RSD 57,525 thousand based on lower appraisal market value and RSD 26,151 thousand according to internal act due to Bank's inability to sell the property in the period shorter than 12 months, even though the appraisal value is higher than book value;
- For equipment RSD 13,439 thousand according to internal act.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

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32. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G1.1 Appraisal value of foreclosed properties

In 000 RSD

Property	Area in м²	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14a,building	925.35	184,285	1,559	164,228	(20,057)
Krusevac, St. selo, a concrete base with land	100,560	136,062	1,151	131,163	(4,899)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	100,608	851	98,456	(2,152)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	100,578	851	96,957	(3,621)
Budva, Reževici, Montenegro, forest V class	5,638.54	81,042	686	79,502	(1,540)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	69,626	589	60,860	(8,766)
Kotor, Montenegro, Office space, building No. 1 PD6	345	69,626	589	60,860	(8,766)
Belgrade, Pivljanina 83, Office building	278.52	60,764	514	58,577	(2,187)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	54,292	459	46,813	(7,479)
Subotica,Magnetna polja 17, **production hall and warehouse**	2,492	46,278	392	44,612	(1,666)
Krusevac, Kosevi bb, **production and office building I.C.P.**	12,836	45,475	385	45,433	(42)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	40,573	343	39,112	(1,461)
Sokobanja, link, port, with land, Orchard, House, field IV kl.	429,149	38,957	330	32,340	(6,617)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, **pasture**	9,374	34,904	295	33,649	(1,255)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	32,672	276	29,667	(3,005)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	24,857	210	24,703	(154)
Kula, Zeleznicka bb, commercial property, land	7,959	22,811	193	21,990	(821)
Kotor, Montenegro, Office space, building No. 1 PD2	106	21,393	181	20,622	(771)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	20,189	171	19,463	(726)
Budva,Rezevici, Montenegro,forest	1,363.20	19,846	168	19,469	(377)
Novi Sad, Bulevar oslobodjenja 88 , **business space** 22	226	17,044	144	16,430	(614)
Aleksandrovo, Merosina, **administration building with land**	8,527	14,663	124	14,135	(528)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	13,244	112	12,767	(477)
Cacak, Suvo polje,building 1 и 2 with land	1,225	11,996	101	11,564	(432)
Nis, Cajnicka BB, building	825.74	10,756	91	10,369	(387)
Novi Sad, Tihomira Ostojica 4, business office 7	134	5,736	49	5,530	(206)
Lebane, Branka Radičevica 17, residential and commercial building	768.42	5,714	48	5,507	(207)
NIS, Ivana Milutinovica 30, business space	438.39	5,107	43	4,924	(183)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,922	42	4,769	(153)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,801	41	4,651	(150)
Novi Sad, Bulevar Oslobodjenja 30a, **business space** (5 local)	181	19,227	163	18,536	(691)
Prijevor, forest 4 class	1,995	4,647	39	4,559	(88)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,523	38	4,360	(163)
Divcibare, meadows V class	8,012	4,193	35	4,114	(79)
Mokra Gora, houses and meadows	58,400	4,134	35	3,985	(149)
Kopaonik, House with land	337	4,083	35	3,936	(147)
Budva, forest IV class	974	3,950	33	3,875	(75)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,648	31	3,547	(101)
Other (27 properties)	-	32,201	272	30,294	(1,907)
Total		**1,379,427**		**1,296,328**	**(83,099)**

G1.2 Appraisal value of foreclosed properties

Description	Book value before the appraisal	Net current value in RSD	In 000 RSD Difference in value
Movable assets	21,262	13,618	(7,644)
Equipment, supplies, secundary raw material	6,303	1,846	(4,457)
Other	8,169	6,831	(1,338)
Total	**35,734**	**22,295**	**(13,439)**

32. OTHER ASSETS (continued)

G1.2 Appraisal value of foreclosed (continued)

For three movable objects worth in total RSD 96 thousand Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

33. LIABILITIES UNDER DERIVATIVES

In 000 RSD

	December 31, 2018	December 31, 2017
Liabilities based on changes in fair value-SWAP	-	7,845
Total	-	7,845

34. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

(000) RSD

	December 31, 2018	December 31, 2017
Demand deposits	2,985,493	2,171,044
Term deposits	1,951,518	231,664
Borrowings	709,168	2,132,509
Expenses deferred at the effective interest rate (deductible item)	(2,990)	(19,733)
Other	19,559	17,021
Balance as at December 31	**5,662,748**	**4,532,505**

During 2018 term deposits were 2.10% to 2.55% for RSD and foreign currency term deposits placed by banks were deposited at interest rate of 0.05% to 0.15% for CHF and 0.05% to 0.10% for EUR.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

Breakdown of long-term borrowings included in aforementioned line “Borrowings” is shown as follows:

(000) RSD

	December 31, 2018	December 31, 2017
EBRD	709,168	2,132,509
Balance at December 31	**709,168**	**2,132,509**

During 2018, the Bank has repayed a line of credit due to EBRD of EUR 12,000 thousand which resulted in a decrease in the balance at the end of the year compared to 2017 in the amount of RSD 1,423,341 thousand.

35. DEPOSITS AND OTHER LIABILITIES DUE TO CLIENTS

Deposits and other liabilities due to customers comprise:

(000) RSD

	December 31, 2018	December 31, 2017
Corporate customers		
Demand deposits	64,150,115	55,021,237
Overnight and other deposits	10,561,044	7,060,604
Borrowings	2,111,822	5,279,478
Earmarked deposits	2,085,383	1,567,511
Deposits for loans approved	610,368	610,238
Interest payable, accrued interest liabilities and other financial liabilities	470,598	434,975
Retail customers		
Demand deposits	29,277,626	23,963,864
Savings deposits	200,064,602	191,350,273
Earmarked deposits	4,605,537	4,131,493
Deposits for loans approved	2,322,718	2,073,679
Interest payable, accrued interest liabilities and other financial liabilities	834,097	868,612
Other deposits	135,174	109,676
Balance at December 31	**317,229,084**	**292,471,640**

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2018, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

Foreign currency demand deposits of non-resident customers are non-interest bearing, except for specific business arrangements.

In 2017 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between : the key policy rate less 2,50 percentage points for deposits placed from 3 to 14 days to key policy rate less 1.00 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited. Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 2.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.0% and 0.40% annually for EUR deposits and from 0.00% to 1.00% for USD.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased from 0.5 to 0.20 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50% to 0.70% for EUR and from 1.30% to 1.40% annually for USD.

35. DEPOSITS AND OTHER LIABILITIES DUE TO CLIENTS (continued)

Retail Customer Deposits

Demand RSD and foreign currency savings deposits of retail customers during 2018 were interest-free.

In 2018 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 1.50% to 3.50 % annually and those in foreign currencies at rates from 0.05% to 0.35% annually for EUR and from 0.10% to 1.00% annually for other currencies.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 3.75% to 4.00% annually and those in foreign currencies at rates from 0.65% to 0.80% annually for EUR and from 1.00% to 1.50% annually for other currencies.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities which, for the purpose of compiling the balance sheet, are regarded as customers.

Breakdown of long-term and short-term borrowings included within the line item of deposits and other liabilities due to customers is presented below:

	December 31, 2018	(000) RSD December 31, 2017
Long term borrowings		
LEDIB 1 and 2 (Kingdom of Denmark)	-	3,982
Republic of Italy Government	103,104	249,272
European Investment Bank (EIB)	1,955,882	3,635,120
European Agency for Reconstruction (EAR)	52,836	98,674
Short term borrowings		
KfW	-	1,292,430
Balance at December 31	**2,111,822**	**5,279,478**

The above presented long-term and short-term borrowings mature in the period from 2019 to 2030.

The loan facility agreements executed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

In the course of 2018, the Bank has made early repayment of credit lines on the basis of the contract concluded with the German Development Bank (KfW) as well as regular repayment of credit line LEDIB 1 and 2 which are an obligation repayments as a whole.

The Bank also performed early repayment of part of credit line the European Investment Bank (EIB) in the amount of 7,065 thousand EUROS and credit lines of the Government of the Republic of Italy in the amount of EUR 333 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

36. PROVISIONS

Provisions relate to:

	December 31, 2018	(000) RSD December 31, 2017
Provisions for off-balance sheet items (Note 13)	274,954	124,392
Provisions for litigations (Note 39.4)	900,152	791,982
Provisions for employee benefits in accordance with IAS 19	478,557	451,677
Balance at December 31	**1,653,663**	**1,368,051**

Movements on the accounts of provisions are provided below:

In 000 RSD

	2018.				2017.			
	Provisions for Off- Balance Sheet Items (Note 14)	Provisions for Litigations (Note 38.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off- Balance Sheet Items (Note 14)	Provisions for Litigations (Note 38.4)	Provisions for Employee Benefits (IAS 19)	Total
Balance, January 1	124,392	791,982	451,677	1,368,051	430,941	913,837	442,516	1,787,294
Correction of opening balance – IFRS 9	95,358	-	-	95,358	-	-	-	-
Ajusted initial state 01.01.2018.	219,750	791,982	451,677	1,463,409	-	-	-	-
Changes over the year	360,293	270,971	80,266	711,530	276,066	173,187	33,809	483,062
Provisions against actuarial gains within equity	-	-	(53,386)	(53,386)	-	-	(24,648)	(24,648)
Release of provisions	-	(28,691)	-	(28,691)	(260,686)	(269,616)	-	(530,302)
Reversal of provisions	(305,089)	(134,110)	-	(439,199)	(321,929)	(25,426)	-	(347,355)
Balance at December 31	**274,954**	**900,152**	**478,557**	**1,653,663**	**124,392**	**791,982**	**451,677**	**1,368,051**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

36. PROVISIONS (continued)

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of damage claims including interest and costs. Total provisions for 1,725 cases as of 31 December 2018 amounted to RSD 900,153 thousand.

In comparison with 31 Decemebr 2017 there was a change in the overall level of provision in the net amount 181,171 thousand dinars. Of that, a change that relates to the additional provisions for litigations is 136,861 thousand dinars, recognized in the income statement, while the reduction of provisions totaling to 28,690 thousand dinars refers to the use of the provisions for payments and for passed court verdicts.

Other disputes mainly relate to claims for damages and labor disputes.

b) Provisions for retirement benefits

Provisions for retirement benefits were formed on the basis of an independent actuary at the balance sheet date, and they are stated in the present value of expected future payments.

The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2018	(000) RSD December 31, 2017
Discount rate	4.75%	4.50%
Salary growth rate within the Bank	2.00%	4.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

37. OTHER LIABILITIES

Other liabilities include:

	December 31, 2018	(000) RSD December 31, 2017
Accounts payable	471,594	385,364
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	71,059	59,886
Advances received	26,820	29,465
Accrued interest, fees and commissions	144,594	139,906
Accrued liabilities and other accruals	357,763	534,653
Liabilities in settlement	2,276,184	3,077,198
Dividend payment liabilities	5,442,133	2,507,577
Taxes and contributions payable	26,263	23,450
Other liabilities	243,562	785,943
Balance as at December 31	**9,059,972**	**7,543,442**

37. OTHER LIABILITIES (continued)

Liabilities in settlement totaling to RSD 2,276,184 thousand dinars mostly relate to liabilities for sale and purchase of foreign currencies in the foreign exchange market from banks in foreign currency in the amount of RSD 709,168 thousand, liabilities for sale and purchase of foreign currencies in RSD in the amount of RSD 708,910 thousand and foreign currency liabilities for spot transactions in the amount of RSD 227,056 thousand and obligations arising from claim payment cards in the amount of 322,546 thousand dinars.

Liabilities from profit in the amount of RSD 5,442,133 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 86,497 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 4,456,758 thousand and
- liabilities from profit to employees in the amount of RSD 898,877 thousand.

With the Decision of the Shareholders Assembly of the Bank no. 6380/3 from 26 April 2018, a part of prior year's retained earnings was distributed for dividends on ordinary shares in the amount of RSD 2,522,693 and preferred shares in the amount of RSD 13,222 thousand with a payout limit of fulfillment of the requirements stated in the Article 25 of the Law on Banks.

During 2018, the Bank did not carry out payments based on the distribution of profits for 2014, 2015, 2016 and 2017 because of the abovementioned limitation.

38. EQUITY

38.1 Equity is comprised of:

	December 31, 2018	(000) RSD December 31, 2017
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	14,223,535	11,061,535
Revaluation reserves	4,254,737	4,026,721
Retained earnings	902,509	19,881
Profit / (Loss) for the period	8,145,182	8,117,368
Balance as at December 31	**67,560,513**	**63,260,055**

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution. As of December 31, 2018 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

The effect of the first application of the IFRS 9 as of 1 January 2018, the Bank has recognised on retained earnings from previous years, without adjustment of data for the previous year, on the basis of changes relating to the classification and measurement, as well as impairment. The total negative effect of differences in accounting values of assets resulting from the application of IFRS 9 recognised in equity as of 1 January 2018, the Bank has covered by distribution of gain from 2017 on the basis of the decisions of the Assembly 6380/3 from 26 April 2018. The same decision was made and an increase in Bank reserves of RSD 3,162,000 thousand.

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38. EQUITY (continued)

Impairment allowance of financial assets measured at amortised cost and including the effect of the change in the provision for off-balance sheet assets	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
949,746	211,947	1,161,693

Breakdown of the Bank's shares is provided in the table below:

(000)RSD

	Share Count	
Share Type	**December 31, 2018**	**December 31, 2017**
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2018 was as follows:

(000) RSD

Shareholder	**Number of shares**	**% share**
Republic of Serbia	7,022,166	41.75
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
BDD M&V INVESTMENTS AD BEOGRAD	320,000	1.90
Kompanija Dunav osiguranje a.d., Beograd	290,214	1.73
East Capital (lux)-Balkan Fund	195,656	1.16
Global Marco Capital Opportun	130,558	0.78
Stankom co. d.o.o., Beograd	117,535	0.70
Global Marco ABSOLUTE RETURN	91,575	0.54
SOCIETE GENERAL BANKA SRBIJA (*castody* account)	81,651	0.49
FRONT MARK OPPORTUN.MASTER	68,404	0.41
Others (1,154 shareholders)	1,203,077	7.15
	16,817,956	**100.00**

38. EQUITY (continued)

The structure of the Bank's shareholders with preferred shares at December 31, 2018 was as follows:

Shareholder	Share Count	(000) RSD % share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (647 shareholders)	270,280	72.37
	373,510	**100.00**

Revaluation reserves totaling RSD 4,254,737 thousand (2017: RSD 4,026,721 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 928,776 thousand, revaluation reserves from valuation of equity securities in the amount of RSD 1,077,886 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 2,125,497 thousand and actuarial gains of RSD 122,578 thousand. Presented values include deferred tax effects.

38.2. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2018	2017
Earnings minus preferred dividend (in RSD thousand)	8,132,109	8,104,145
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	**484**	**482**

Basic earnings per share for the year 2018 amounts to RSD 484 or 48.35% of the nominal value of ordinary shares, while for 2017 earning per share was RSD 482, or 48.19% of the nominal value of the ordinary shares, and for 2016 loss amounted to RSD 480 or 48.04% of the nominal value of the ordinary shares.

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2018	(000) RSD December 31, 2017
Operations on behalf and for the account of third parties	4,228,635	4,226,654
Taken-over future liabilities	44,069,612	34,941,426
Derivatives intended for trading under the contract currency	1,772,919	592,364
Other off-balance sheet items	407,748,884	434,668,336
Total	**457,820,050**	**474,428,780**

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

39.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	December 31, 2018	(000) RSD December 31, 2017
Payment guarantees	3,107,502	3,443,746
Performance guarantees	3,004,569	4,349,151
Letters of credit	214,361	104,330
Balance as at December 31	**6,326,432**	**7,897,227**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

39.2 Commitments

The breakdown of commitments is provided below:

	December 31, 2018	(000) RSD December 31, 2017
Unused portion of approved payment and credit card loan facilities and overdrafts	11,017,337	10,116,077
Irrevocable commitments for undrawn loans	24,627,309	16,014,883
Other irrevocable commitments	2,098,534	913,239
Balance as at December 31	**37,743,180**	**27,044,199**

39.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,228,635 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,524,405 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 291,695 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 407,748,884 thousand, the Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients (RSD 58,545,369 thousand), the nominal value of the securities in the portfolio of the Bank (RSD 126,251,383 thousand), repo investments in Treasury bills (RSD 1,500,000 thousand), the amount written-off of funds in dollars in the amount of 28,336,005 thousand dinars, and the amount written-off of financial assets in foreign currency in the amount of 3,803,166 thousand dinars, according to the NBS of the accounting write off balancing assets. The Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients ' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds. Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 178,731,833 thousand.

NOTES TO THE FINANCIAL STATEMENTS
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39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

39.4 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal suits filed against the bank in 2018 in the total amount of RSD 900,152 thousand (2017: RSD 791,982 thousand) (Note 36).

As of 31 December 2018 contingent liabilities based on legal suits filed against the Bank amounted to RSD 1,925,451 thousand (for 2072 cases).

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 37,417,637 thousand (for 552 cases with the largest individual claim amounts) The Bank's management anticipates favorable outcome of the most lawsuits.

39.5 Commitments for operating lease liabilities are provided below:

	December 31, 2018	(000) RSD December 31, 2017
Commitments due within one year	379,610	369,364
Commitments due in the period from 1 to 5 years	877,772	855,834
Commitments due in the period longer than 5 years	91,020	118,340
Total	**1,348,402**	**1,343,538**

39.6 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.
During 2018, the Bank had no tax controls.

40. RELATED PARTY DISCLOSURES

Legal entities and individuals are considered related parties if one party has control, joint control or significant influence in making financial and operating decisions of another legal entity. Related parties are also those who are under the common control of the same parent company.

In the normal course of business, a number of banking transactions are performed with subsidiaries. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

40.1. Shareholders and subsidiaries

The largest portions of the Bank's voting shares are held by the Republic of Serbia (41.74% of ordinary shares) and EBRD, London (24.43% of ordinary shares). The Bank has 3 subsidiaries: Komercijalna banka a.d., Podgorica, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

40. RELATED PARTY DISCLOSURES

40.1. Shareholders and subsidiaries (continued)

A. Balance as at December 31, 2018

RECEIVABLES

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,651	882	-	93	7,440	-	7,440
2 Komercijalna banka AD Banja Luka	101,737	25	881	1,261	101,382	1,181,946	1,283,328
3. Kombank Invest	-	162	-	-	162	200	362
Total:	**108,388**	**1,069**	**881**	**1,354**	**108,984**	**1,182,146**	**1,291,130**

LIABILITIES (000) RSD

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	1,440,473	-	1,651	1,442,124
2 Komercijalna banka AD Banja Luka	179,992	-	-	179,992
3. Kombank Invest	8	-	-	8
Total	**1,620,473**	**-**	**1,651**	**1,622,124**

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	70	2,994	-	(2)	3,062
2 Komercijalna banka AD Banja Luka	3,449	4,073	-	(835)	6,687
3. Kombank Invest	-	1,386	-	-	1,386
Total	**3,519**	**8,453**	**-**	**(837)**	**11,135**

Komercijalna banka a.d. Beograd realized net foreign exchange losses in the amount of RSD 10,321 thousand (2017: net foreign exchange gains of RSD 54,899 thousand) from related parties transactions.

40. RELATED PARTY DISCLOSURES(continued)

40.1. Shareholders and subsidiaries (continued)

B. Balance as at December 31, 2017

RECEIVABLES (000) RSD

Subsidiaries	Loans and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,589	902	-	7,491	-	7,491
2 Komercijalna banka AD Banja Luka	490,815	42	1,295	492,152	-	492,152
3. Kombank Invest	-	119	-	119	200	319
Total:	**497,404**	**1,063**	**1,295**	**499,762**	**200**	**499,962**

LIABILITIES (000) RSD

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
1.Komercijalna banka AD Podgorica	1,019,079	-	1,654	1,020,733
2 Komercijalna banka AD Banja Luka	229,884	-	-	229,884
3. Kombank Invest	49	-	-	49
Total:	**1,249,012**	**-**	**1,654**	**1,250,666**

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
1.Komercijalna banka AD Podgorica	103	2,603	-	(632)	2,074
2 Komercijalna banka AD Banja Luka	3,940	3,871	-	(781)	6,914
3. Kombank Invest	-	1,521	(102)	-	1,419
Total:	**4,043**	**7,995**	**(102)**	**(1,529)**	**10,407**

Komercijalna banka a.d., Beograd realized net foreign exchange gains in the amount of RSD 54,899 thousand (2017: net foreign exchange losses of RSD 20,944 thousand) from related party transactions.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

40. RELATED PARTY DISCLOSURES(continued)

40.2 Other related parties

Loans and receivables from related parties

(000) RSD

Loand and Receivables	2018 Balance	2018 Off balance	2018 Total	2017 Balance	2017 Off balance	2017 Total
Bolero ZR	1	-	1	-	-	-
PMC Inzinjering	1	-	1	-	-	-
Cedens company	-	-	-	29	63	92
Physical entities	148,782	14,815	163,597	128,509	13,334	141,843
Total	**148,784**	**14,815**	**163,599**	**128,538**	**13,397**	**141,935**

Liabilities	**depsits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**total**
PMC Inzinjering	207	-	207	-	-	-
Arhitektonski biro studio 3	1	-	1	-	-	-
JP Jugoimport	29	-	29	-	-	-
Anfibija doo Cacak	239	-	239	189	-	189
EBRD (note 32)	-	710,563	710,563	-	2,145,943	2,145,943
International Finance Corporation (note 32, 34)	9	-	9	-	-	-
Reprezend DOO	12	-	12	12	-	12
Bolero ZR	11	-	11	8	-	8
Cedens company	-	-	-	2,364	-	2,364
Natural persons	146,812	-	146,812	94,898	-	94,898
Total	**147,320**	**710,563**	**857,883**	**97,471**	**2,145,943**	**2,243,414**

	2018 Interest	2018 Fees	2018 Total
Income			
PMC Inzinjering	-	12	12
Anfibija doo Cacak	-	7	7
Arhitektonski biro studio 3	-	12	12
Bolero ZR	-	18	18
Physical entities	7,207	1,124	8,331
Total	**7,207**	**1,173**	**8,380**
Expenses			
EBRD	40,813	-	40,813
Natural persons	1,109	736	1,845
Total	**41,922**	**736**	**42,658**
Net expenses	**(34,715)**	**437**	**(34,278)**

40. RELATED PARTY DISCLOSURES(continued)

40.2. Other related parties (continued)

	(000) RSD 2017		
	Interest	**Fees**	**Total**
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija	-	8	8
Natural persons	6,471	1,386	7,857
Total income	**6,481**	**1,556**	**8,037**
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Natural persons	282	512	794
Total expenses	**384,756**	**5,644**	**390,400**
Net expenses	**(378,275)**	**(4,088)**	**(382,363)**

40.3 Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee were as follows:

		(000) RSD
	December 31, 2018	**December 31, 2017**
Gross remunerations		
Executive Board	58,927	84,279
Net remunerations		
Executive Board	49,500	72,177
Gross remunerations		
Board of Directors and Audit Committee	40,324	37,415
Net remunerations		
Board of Directors and Audit Committee	25,310	22,963

41. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Based on the analysis of the regular annual census conducted on December 31, 2018, the Bank has non-compliant statements of open items for 10 clients with the stated reason for the dispute.

Non-compliant statements for three clients relate to clients who challenge the amount of receivables for given advances, claims based on issued invoices, claims on the basis of a rent in the total amount of RSD 282 thousand.

For one client conflict is related to off-balance items presented as guarantee because of different tracking dates of issued guarantee in Bank ledgers and a client's of RSD 4,137 thousand.
Six clients disputed amounts: receivables from domestic and foreign payment fees, the amount of mature annuity, the method of calculating default interest in the total amount of RSD 80 thousand.

The amount of imapirment for claims that are contested (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.The Bank is in a continuous process of reconciling of the disputed items.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

42. EVENTS AFTER THE REPORTING PERIOD

In accordance with the provisions of the valid pre-prepared reorganization plan, by executing a contract between two clients, on February 12th, 2019 the Bank has collected the amount of RSD 442,089 thousand (EUR 3,740 thousand) from the client whose placement was completely impaired and as such was classified as off-balance sheet item, based on the purchase of warehouse space over which the Bank had the mortgage. The total amount of RSD 442,089 thousand is recognized in the income statement on the basis of collection of written-off receivables.

Other than those events described above, there were no significant events after the balance sheet date that would be necessary to be disclosed in the financial statements.

43. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2018 and 2017 for certain major currencies are:

	December 31, 2018	December 31, 2017
USD	103.3893	99.1155
EUR	118.1946	118.4727
CHF	104.9779	101.2847

In Belgrade, March 12, 2019

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Peric, PhD	Vladimir Medan, PhD
Member of the Executive Board	Chief Executive Officer

KOMERCIJALNA BANKA A.D., BEOGRAD

Financial Statements
Year Ended December 31, 2018
and Independent Auditors' Report

CONTENTS

Ernst & Young d.o.o. Beograd
Antifašističke borbe 13A
11070 Beograd, Srbija

Tel: +381 11 2095 800
Fax: +381 11 2095 891
ey.com/rs

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This is an English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

We have audited the accompanying separate financial statements of Komercijalna banka a.d. Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing as applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

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

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Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Bank. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual separate financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual separate financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the separate financial statements of the Bank for the year ended 31 December 2018.

Belgrade, 12 March 2019

PREDUZEĆE ZA REVIZIJU Ernst & Young d.o.o. BEOGRAD

Dušan Tomić
Authorised Auditor
Ernst & Young d.o.o. Beograd

INCOME STATEMENT
Year Ended December 31, 2018
(Thousands of RSD)

	Note	2018	2017
Interest income	8	13,744,908	14,052,436
Interest expenses	8	(910,270)	(1,606,239)
Net interest gains		12,834,638	12,446,197
Income from fees and commissions	9	7,207,872	6,700,216
Expenses on fees and commissions	9	(1,997,723)	(1,617,990)
Net gains from fees and commissions		5,210,149	5,082,226
Net gains from changes in fair value of financial instruments	10	44,076	56,537
Net gains from derecognition of the financial instruments measured at fair value	11	230,194	91,584
Net exchange rate losses and losses on agreed currency clause	12	(7,458)	(56,358)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	13	9,493	17,883
Net gains from derecognition of the financial instruments measured at amortised cost	14	526,547	-
Net gains from derecognition of investments in associated companies and joint ventures	15	-	306
Other operating income	16	155,969	183,973
TOTAL NET OPERATING INCOME		19,003,608	17,822,348
Salaries, salary compensations and other personal expenses	17	(4,442,799)	(4,520,197)
Depreciation costs	18	(551,988)	(563,582)
Other income	19	280,229	753,804
Other expenses	20	(6,167,977)	(6,305,123)
PROFIT BEFORE TAX		8,121,073	7,187,250
Gains from deferred taxes	21	700,754	1,335,828
Losses on deferred taxes	21	(676,645)	(405,710)
PROFIT AFTER TAX		8,145,182	8,117,368
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	38.2	484	482
Diluted earnings per share (in dinars, without paras)	38.2	484	482

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2018
(Thousands of RSD)

	Note	2018	2017
PROFIT FOR THE PERIOD		8,145,182	8,117,368
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Actuarial gains	21.5; 36	53,387	24,648
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	21.5	230,026	190,723
Components of other comprehensive income that may be reclassified to profit or loss:			
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	21.5	(203,597)	(430,747)
Tax gains relating to other comprehensive income for the period	21.5	34,066	64,612
Tax losses relating to other comprehensive income for the period	21.5	(42,512)	(114,043)
Total positive other comprehensive income		71,370	-
Total negative other comprehensive income		-	(264,807)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		8,216,552	7,852,561

Notes on the following pages
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Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

BALANCE SHEET
As of December 31, 2018
(Thousands of RSD)

	Note	31.12.2018	31.12.2017
ASSETS			
Cash and assets held with the central bank	22	63,595,710	49,840,887
Receivables under derivatives	23	4,070	-
Securities	24	133,177,598	117,288,767
Loans and receivables from banks and other financial organisations	25	18,477,729	29,543,789
Loans and receivables from clients	26	167,545,674	153,897,367
Investments into subsidiaries	27	2,611,859	2,611,859
Intangible investments	28	557,051	460,263
Property, plant and equipment	29	5,619,078	5,655,248
Investment property	30	1,896,347	1,988,608
Deferred tax assets	21	840,967	857,096
Non-current assets held for sale and discontinued operations	31	227,630	241,148
Other assets	32	6,612,267	6,798,506
TOTAL ASSETS		401,165,980	369,183,538
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities under derivatives	33	-	7,845
Deposits and other liabilities to banks, other financial organisations and central bank	34	5,662,748	4,532,505
Deposits and other financial liabilities to clients	35	317,229,084	292,471,640
Provisions	36	1,653,663	1,368,051
Other liabilities	37	9,059,972	7,543,442
TOTAL LIABILITIES		333,605,467	305,923,483
EQUITY			
Share capital	38	40,034,550	40,034,550
Profit	38	9,047,691	8,137,249
Reserves	38	18,478,272	15,088,256
TOTAL EQUITY		67,560,513	63,260,055
TOTAL LIABILITIES AND EQUITY		401,165,980	369,183,538

Notes on the following pages
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These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

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STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2018
(Thousands of RSD)

	Share capital and other equity (Note 38)	Premium on issue of shares (Note 38)	Reserves from profit and other reserves (Note 38)	Revaluation reserves (Note 38)	Retained earnings (Note 38)	Total (Note 38)
Opening balance as at 1 January 2018	17,191,466	22,843,084	11,061,535	4,026,721	8,137,249	63,260,055
Effects of the first implementation of new IFRS	-	-	-	180,155	(1,161,693)	(981,538)
Adjusted opening balance as at 1 January 2018	17,191,466	22,843,084	11,061,535	4,206,876	6,975,556	62,278,517
Profit for the current year	-	-	-	-	8,145,182	8,145,182
Other comprehensive income after tax						
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	230,026	-	230,026
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(203,597)	-	(203,597)
Actuarial gains	-	-	-	53,387	-	53,387
Tax effectts relating to other comprehensive income for the period	-	-	-	(8,446)	-	(8,446)
Other comprehenisve income after tax	-	-	-	71,370	-	71,370
Distribution of profit	-	-	3,162,000	-	(3,162,000)	-
Dividend payments	-	-	-	-	(2,535,916)	(2,535,916)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	-	(23,509)	23,509	-
Other – decrease	-	-	-	-	(398,640)	(398,640)
Total transactions with owners	-	-	3,162,000	(23,509)	(6,073,047)	(2,934,556)
Balance as at 31 December 2018	17,191,466	22,843,084	14,223,535	4,254,737	9,047,691	67,560,513

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2017
(Thousands of RSD)

	Share capital and other equity (Note 38)	Premium on issue of shares (Note 38)	Reserves from profit and other reserves (Note 38)	Revaluation reserves (Note 38)	Retained earnings (Note 38)	Total (Note 38)
Opening balance as at 1 January 2017	17,191,466	22,843,084	18,791,828	4,311,409	(7,713,485)	55,424,302
Profit for the current year	-	-	-	-	8,117,368	8,117,368
Other comprehenisve income after tax						
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	190,723	-	190,723
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(430,747)	-	(430,747)
Actuarial gains	-	-	-	24,648	-	24,648
Tax effectts relating to other comprehensive income for the period	-	-	-	(49,431)	-	(49,431)
Other comprehenisve income after tax	-	-	-	(264,807)	-	(264,807)
Coverage of losses from reserves from profit	-	-	(7,730,293)	-	7,730,293	-
Dividend payments	-	-	-	-	(16,808)	(16,808)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	-	(19,881)	19,881	-
Total transactions with owners	-	-	(7,730,293)	(19,881)	7,733,366	(16,808)
Balance as at 31 December 2017	17,191,466	22,843,084	11,061,535	4,026,721	8,137,249	63,260,055

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.
Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

STATEMENT OF CASH FLOWS
Year Ended December 31, 2018
(Thousands of RSD)

	2018	2017
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	22,365,620	23,708,278
Interest	13,996,462	15,548,877
Fees	7,214,624	6,685,133
Other operating income	1,146,009	1,465,131
Dividends and profit sharing	8,525	9,137
Cash outflow from operating activities	(12,986,403)	(14,476,414)
Interest	(947,520)	(2,077,828)
Fees	(1,967,989)	(1,604,753)
Gross salaries, salary compensations and other personal expenses	(4,343,591)	(4,720,871)
Taxes, contributions and other duties charged to income	(890,900)	(872,611)
Other operating expenses	(4,836,403)	(5,200,351)
Net cash inflow / (outflow) from operating activities before an increase or decrease in financial assets and financial liabilities	9,379,217	9,231,864
Decrease in financial assets and increase in financial liabilities	30,043,591	8,861,801
Decrease in receivables under securities and other financial assets not intended for investment	699,138	8,861,801
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	29,344,453	-
Increase in financial assets and decrease in financial liabilities	(4,396,653)	(18,262,489)
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(4,396,653)	(4,081,054)
Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	-	(14,181,435)
Net cash inflow / (outflow) from operating activities before profit tax	35,026,155	(168,824)
Net cash inflow / (outflow) from operating activities	35,026,155	(168,824)

STATEMENT OF CASH FLOWS (continued)
Year Ended December 31, 2018
(Thousands of RSD)

	2018	2017
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	42,094,231	54,583,075
Investment in investment securities	42,094,231	54,463,556
Sale of intangible investments, property, plant and equipment	-	637
Sale of investment property	-	118,882
Cash outflow from investing activities	(58,424,017)	(51,054,260)
Investment into investment securities	(58,013,589)	(50,603,633)
Purchase of intangible investments, property, plant and equipment	(407,120)	(450,627)
Other outflow from investing activities	(3,308)	-
Net cash inflow / (outflow) from investing activities	(16,329,786)	3,528,815
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	84,792,124	87,369,782
Loans taken	84,792,124	87,369,782
Cash outflow from financing activities	(89,475,977)	(98,614,492)
Subordinated liabilities	-	(5,923,635)
Loans taken	(89,475,977)	(92,690,857)
Net cash inflow / (ouflow) from financing activities	(4,683,853)	(11,244,710)
TOTAL CASH INFLOW	179,295,566	174,522,936
TOTAL CASH OUTFLOW	(165,283,050)	(182,407,655)
NET INCREASE / (DECREASE) IN CASH	14,012,516	(7,884,719)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	26,314,898	34,945,610
EXCHANGE RATE GAINS	48,334	-
EXCHANGE RATE LOSSES	-	(745,993)
CASH AND CASH EQUIVALENTS AT END-PERIOD	40,375,748	26,314,898

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

1. BANK'S ESTABLISHMENT AND ACTIVITY

Komercijalna Banka a.d., Beograd (hereinafter the "Bank"), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991 and later registered with the Serbian Business Registers Agency on April, 14 2006. The Bank was issued its operating license by the National Bank of Yugoslavia on July 3, 1991.

The principal holders of voting shares in the Bank are as follows:

Republic of Serbia	41.75%
EBRD, London	24.43%

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations in the country and abroad.

As of December 31, 2018, the Bank was comprised of the Head Office in Belgrade at the address of no. 14, Svetog Save St., 6 business centers, 3 sectors to work with small and medium enterprises, 1 branch and 201 sub-branches in the territory of the Republic of Serbia (December 31, 2017: 6 business centers, 5 business and corporate centers, 1 branch and 203 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2018, the Bank had 2,766 employees (December 31, 2017: 2,806 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2018 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The accompanying financial statements represent the Bank's unconsolidated (separate) financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

New and revised standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of Financial Statements of Banks (Official Gazette of RS nos. 71/2014, 135/2014, 103/2018).

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

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

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

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

2.2. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2018:

- **IFRS 9 Financial Instruments**

  The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. For detailed information on the effects and disclosures please see the Notes 4.1 and 4.1.1.

- **IFRS 15 Revenue from Contracts with Customers**

  IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank’s financial statements.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

  The objective of the Clarifications is to clarify the IASB’s intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the “separately identifiable” principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank’s financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the requirements of this standard will have significant effect on Bank’s financial statements.

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

2.2. Changes in accounting policy and disclosures

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. It is not expected that the requirements of this interpretation will have significant effect on Bank's financial statements.

  The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. It is not expected that the requirements of these improvements will have significant effect on Bank's financial statements.

  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

IFRS 16 is released in January 2016. year and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 evaluation of the substance of transactions involving the legal form of rent. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leasing and requires tenants to calculated all leases within one model similar to the accounting for financial leasing according to IAS 17. Standard includes two exemptions from recognition for leasees – leases of "low-value assets" (e.g. Personal computers) and short term leases (i.e. leases with lease term of 12 months or less). On the start date of the lease, the lessee will acknowledge the obligation for payment of leases (i.e. the obligation for leasing) and asset is the right to use the asset over the life of the lease (i.e. the right to use the funds). The lessee will be required to separately recognised cost interest on obligation of leasing and the cost at which the right to the use of the funds.

Accounting for leasors under IFRS 16 has remained essentially unchanged in comparison to the accounting under IAS 17. Leasors will continue to classify all contracts using the same principle as a classification according to IAS 17 and distinguish between two kinds of leases: operating and financial leasing.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requests more detailed disclosures from the lessee and the leasor than IAS17 requested.

Transition to IFRS16

The Bank has made the transition to IFRS 16 in accordance with the modified retrospective approach. Comparative data from previous years are not corrected.

The Bank has chosen to use excepcions, which are the proposed by the standard for the contracts for which the lease ends within 12 months from the date of the initial application, as well as the contracts for which the underlying asset can be considered a low-value assets. The Bank has agreements to lease certain office equipment, printing and photocopying devieces which are classified as low-value assets.

The following categories of leases have been identified as a result of transition to IFRS 16 from 1 January 2019, that were previously recognized as an operating lease, leases now qualify as defined per standard: real estate, technical equipment and vehicles. At the first-time adoption, right of use of leased assets is generally measured using average incremental borrowing rate that varies from 0.3324% to 2.4310% for EUR and 2.8660% to 4.1253% for RSD contracts. The first time adoption resulted in recognition of lease liabilities in total of RSD 1,349,455 thousand and, accordingly, right of use of assets in balance sheet as of 1 January 2019 in the preliminary amount of RSD 1,349,455 thousand.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

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

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that this interpretation will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **Conceptual Framework in IFRS standards**

  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements.

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

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that these amendments will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements.

    - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

    - ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

    - ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Due to the implementation of IFRS 9, NBS has modified the regulations regarding compiling and presenting the financial statements for the period January – December 2018, so banks were obliged to implement new forms of financial statements with valid starting from 1 January 2018.

Banks were required to accommodate data from the past year to new structure without modifying financial data.

In the preparation of financial statements for 2018 the Bank implemented a new accounting policy in the area of financial instruments and enabling the allocation of credit losses on all accounting periods in which results from use of assets are generated, which is the assumption for determining exact result.

(a) Consolidation

The Bank has control over the following legal entities, which are not consolidated into these financial statements:

Legal Entity	Equity Interest
Komercijalna banka a.d. Budva, Montenegro	100%
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	99.99%
Investment Fund Management Company KomBank Invest a.d. Beograd, Serbia	100%

The Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's separate financial statements, investments in subsidiaries are measured at cost.

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into RSD at the spot middle exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Exchange rates for major currencies used in the translation of the statement of financial position items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

		In RSD
	2018	2017
USD	103.3893	99.1155
EUR	118.1946	118.4727
CHF	104.9779	101.2847
JPY	0.9366	0.8791

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received 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 liability.

Interest income from non-performing loans is recognized at the net principle, reducing the gross interest accrued by the impairment allowance amount, i.e. the amount that is likely not to be collected.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and Commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission income are properly recognized and accepted as income in the adequate period.

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Net gains arising on the fair value measurement of financial instruments

Net gains arising on the fair value measurement of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gain on the derecognition of financial instruments at fair value

Net gain on derecognition of financial instruments at fair value refers to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

g) Dividends

Income from dividends is recognized at the moment of economic benefits inflow arising from dividends. Dividends are reported under other income.

(h) Operating and Finance Lease Payments

Payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred Income Tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they write-off, based on the laws that have been enacted by the reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected amount of deferred tax liabilities or assets.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under "Other operating expenses".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

Financial Intruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial asset

A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right to receive cash or another financial asset from another entity; or
- a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments

Financial liability

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity; or
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

Principles of valuation of financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

The Bank assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports. The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.The business model determines whether cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation. Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist exclusively of principal and interest payments on the remaining principal (SPPI criterion).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Financial assets can be classified into the following categories:

- financial assets valued at amortized cost (AC)
- financial assets valued at fair value through profit and loss account (FVTPL)
- financial assets valued at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):
  - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
  - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
  - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- **Financial derivatives** that include forward and swap transactions.

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Equity instruments in subsidiaries that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- The goal of a business model of holding a financial asset is the collection of contracted cash flows and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

IFRS requires that all financial assets, other than derivatives and equity instruments, be analysed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other Other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank defined the criteria for classifying financial instruments into stages 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Segment 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

Stage 2

All financial instruments for which credit risk has significantly increased are classified in Segment 2 and impairment allowance are calculated on the basis of expected losses for the entire life of the instrument (lifetime ECL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

The Bank is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be a delay of 31 to 90 days, customer restructuring, and clients on the watch list.

Stage 3
Similarly as in accordance with IAS 39, financial instruments are included in Stage 3, where there is objective evidence of impairment and there is no change in the coverage of loans classified in that segment, with the introduction of multiple collection scenarios. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings account. The Bank will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Bank will recognize differences in the carrying amounts of financial assets that arise from the application of IFRS 9 within equity as at 1 January 2018.

(iii) De-recognition

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

in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) De-recognition(continued)

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(k) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

(l) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Following initial recognition items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Following initial recognition, property is measured at valuation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuation is performed regularly in order to ensure that net book value does not differ significantly from reported amounts that would result from using the fair value approach at the end of reporting period.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Property and Equipment (continued)

(ii) Subsequent Costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated depreciation rates for the current and comparative periods were as follows:

Asset	**Estimated useful life (in years)**	**Rate %**
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Leasehold improvements	1 – 23.5	4.25%-86.20%

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Maintenance costs for assets are recognized in the profit or loss in the period when occurred.

(m) Intangible Assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses.

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 10 years and amortization rates used range between 10.00%and 33.34%

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(lj) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost of acquired investment property comprises the purchase price and all expenses that can be directly attributed to the acquisition of the asset.

For subsequent measurement of investment property the Bank uses the cost model, such that investment property is measured at cost less accumulated depreciation and impairment losses.

Estimated useful life of investment property amounts to 40 years, while the depreciation rate used amounts to 2.5% Depreciation is provided for in profit or loss on a straight line basis over the useful life of a given item of property, given that it reflects best the expected exploitation of the useful economic value embodied in the asset.

(n) Leases

In 2018, the Bank has classified its contracts for lease of property and equipment according to IFRS 17, that was implemented as of 31 Decemebr 2018. Rules of classification of contracts according to IFRS 16 Bank will apply starting with the January 2019. IFRS 16 defines the initial recognition, test of and disclosure of leasing for both parties to the contract, or for a recipient and a donor of leasing. In more detail in note 2.3. standards issued but not yet entered into force and are not early adopted.

The Bank is a lessee based on leasing agreements. The Bank classifies leases as financial leasing when the lease agreement stipulates that the basic risks and benefits of ownership over the leased assets are transferred to the lessee. All other leasing agreements are classified as operating leases.

Lease agreements that relate to lease of office space in which the Bank's branches are located primarily relate to operating leases. All payments made during the year based on operating leases are reported as an expense in the statement of comprehensive income on a straight line basis over the duration of the lease period.

Assets that are held based on a finance lease agreement are recognized as the Bank's assets at the lower of their fair value or the present value of minimum lease payments specified at the start of the lease agreement. The corresponding liability toward the lessor is reported in the statement of financial position as a finance lease liability. Lease payments are apportioned between the finance expense and the reduction of the outstanding finance lease liability, such that a constant interest rate is achieved on the outstanding portion of the liability. The financial expense is reported directly as a period expense.

(o) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment of Non-Financial Assets (continued)

The recoverable amount of an asset is the greater of its value in use and its fair value. In assessing value in use, the estimated future cash flows are 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.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, borrowings and subordinated liabilities are the Bank's main sources of financing.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities, borrowings and subordinated liabilities are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

(r) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(s) Employment Benefits

In accordance with regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

In accordance with the Labor Law, the Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2018 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36(b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

(u) Capital and Reserves

The Bank's equity consists of founders' capital, shares of subsequent issues, share premium, profit reserves, revaluation reserves and unrealized losses on available for sale securities, retained earnings and current period result.
The Bank's equity is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(v) Earnings per Share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for the effects of preferred convertible shares and dividing the adjusted amount by the weighted average number of ordinary shares outstanding during the period.

(dj) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank discloses information on performance of segments, thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities.

Upon determining operating segments, the Bank uses the following:

a) different products and services offered by the segments
b) separate segment management, and
c) internal reporting structure.

4. RISK MANAGEMENT

The Bank has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment. Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the 2018 (grouping of branches into Business centers, changes in the function of economy and population, changes in decision making), as well as changes of internal acts which regulates risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of problematic receivables and exposures to one person or a group of related parties has improved.

At the beginning of 2018, the Bank has carried out reconciliation of internal documents (methodology and procedures) in accordance with changes to the regulations of the National Bank of Serbia from the field of accounting and financial reporting, which introduces the obligation of applying the International standards of the financial 9 reporting in banks (IFRS 9). The specified changes to the prescribed obligations to banks of 1 January 2018 calculation made in accordance with IFRS 9. In accordance with IFRS 9, the Bank adopted a new Methodology for estimating impairment of on-balance assets and expected credit losses for off balance items that applies from 1 January 2018.

Risk Management System

The risk management system is governed by the following internal enactments:

- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other enactments.

Risk Management Strategy sets out:

- Long-term objectives, defined by the Bank's business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk undertaking and management;
- Basic principles of the process of internal assessment of the Bank's capital adequacy;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures. The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

4. RISK MANAGEMENT (continued)

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Committee) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

4. RISK MANAGEMENT (continued)

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

Types of Risk

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, investment risk, exposure risk and country risk as well as to all other risks that may arise from the Bank’s regular operations.

4.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank’s financial result and capital arising from debtors’ inability to settle the matured liabilities to the Bank.

The Bank has defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodology.

Prior to loan approval, the Bank assesses the creditworthiness of the borrower based on internally defined criteria as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the Bank’s competent bodies enact a loan approval decision in accordance with the defined decision making system.

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

In decision making the principle of double control, the so-called "four eyes principle," is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

For loans contracted in foreign currencies or RSD loans indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor's cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Bank as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Bank has also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

Credit Risk Management

In accordance with the scope, type and complexity of the operations it performs, the Bank has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.
The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Bank's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Bank's financial result and capital;
- Loan rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

The Bank performs quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on measuring risk level of individual loans and investments based on the internally adopted rating system.

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. In December 2018, in accordance with the amendments to the regulations of the National Bank of Serbia, adopted the amending regulations that from 01.01.2019. year confirms cancellation of reserves calculation for the estimated losses and the necessary reserves.

Alleviating credit risk entails maintaining the risk at the level acceptable to the Bank's risk profile, i.e. maintaining acceptable quality level of the Bank's loan portfolio.

Basic credit risk alleviating techniques are:

- Exposure Limits - concentration risk,
- Diversification of investments,
- Security instruments.

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's creditworthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Bank), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1st.2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to households of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating court proceedings and other measures.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Bank initiates reversal of the remaining receivables, or transfer from the balance sheet to off balance sheet.

In accordance with the regulations of the National Bank of Serbia (Decision on accounting reverse of the balance sheet assets of the bank), as well as amendments to the legislation related to tax treatment, in 2017, the Bank made a reverse of all impaired receivables by transfer from balance sheet to off-balance sheet records. The result was a reduction in gross loans and value adjustments in the balance sheet, and consequently a decrease in NPL indicators.

Apart from credit risk exposure, the Bank also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Bank has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures that are used for credit risk.

Credit risk reporting includes internal and external reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system.

IFRS 9 financial instruments

Starting from 1 January 2018, the Bank applies IFRS 9 standard that has replaced IAS 39 standard. In accordance with IFRS 9 standard financial assets can be classified and evaluated as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criteria;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Bank's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income, with a reclassification of profit and loss through the income statement.

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims

The Bank monitors the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are monitored on a regular time basis and based on analysis of those signs, customers are classified into the category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Bank also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Clients located in stages 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfillment of the criteria of material significance, are impaired individually. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios. Restructured unproblematic clients are classified as potentially risky clients, that is, to stage 2 of impairment, while restructured problematic are classified as problematic clients, and are categorized into stage 3 impairment.The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements,ie mitigating and reducing credit risk through the implementation of an adequate strategy and action plans.

Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have days past due more than 90 days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the borrower will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. Problematic receivables are all receivables from the debtor, if one receivalbe is classified as problematic receivable.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Restructuring of receivable is the approval, due to the financial difficulties of the borrower, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favorable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice "forbearance". In addition, the category of restructured receivables also includes receivables in which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Bank has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Bank (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

In accordance with implementing IFRS 9 standard, any restructuring of claims due to financial difficulties is considered to be modified or changed financial asset.

Modifications that cause the derecognition of the old financial assets and initial recognition of the new, and that they were motivated by a drop in the credit standing and repayment capacity, lead to initial recognition financial assets that standard defined as "POCI", ie. funds that are impairment at the time of initial recognition, and are initially valued at fair value. They do not have at the time of initial recognition impairment, but you must include the expected credit losses during lifetime assets in the calculation of effective interest rates.

Consequently, the Bank includes an initial expected credit losses in estimating cash flows, when Bank calculate a credit-adjusted effective interest rates of financial assets that are considered to be impairment at the time of initial recognition. Also, for purposes of calculation of impairment, this means going for the whole period of duration stay in level 3.

IFRS 9 in the event of a significant modification of a financial instrument, indicates the need to derecognise an old financial asset and recognise the new one at fair value at the date of recognition. Termination of recognition leads to a sustained gain or loss recognized in the income statement and an equal difference between the amortized value of an old financial asset and the fair value of a new financial asset minus the amount of expected loan losses recognized as impairment on a new financial asset.

The Bank regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the Bank of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not greater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

Risk of asset quality change - asset delinquency

The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans. The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4d, 4dd, and 5). Risk Category 4 is divided into three sub-categories: 4 - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties) , the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets. The bank assess the impairment of receivables on a group and on a individual basis.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Individual and Group Assessment at Stage 3

The bank estimates impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), ie placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfillment of the client's obligations towards the members of the bsnk, a new assessment of the impairment of the placements is made.

The materiality threshold of a member of the bank is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment loss on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank , due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watchlist process, information on the increased level of risk of the borrower.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%

For a group of smaller material receivables that are located at stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

The bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of future expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Bank's members and other exposures with a credit risk weight of 0, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses amount to 0.

All financial instruments in which credit risk exacerbation has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument.

The bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).

The bank calculates the cost of impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

For the corporate and retail sectors, the Bank calculates the expected credit losses (impairment) in the following way:

$$\boldsymbol{ECL = \sum_{t=1}^{T} (EAD_t * MPD_t * LGD_t * DF_t)}$$

- ECL Expected credit loss
- EAD Exposure at default
- MPD Marginal Probability of default
- LGD Loss given default)
- DF EIR based discount factor

This formula is used to calculate the expected credit losses (impairments) at stages 1 and 2, along with respect to the time horizon.

EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default. For the calculation of EAD for stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-fullfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfill obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

To calculate impairment for Stage 1, the Bank uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, ie the probability of default for the entire life of the financial instrument.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31 December. **LGD** represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - **DF** for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Bank. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure towards securities issued by the Goverment and its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate * t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liabilitiy and the borrower is classified at stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members.

For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the bank does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Bank members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Bank provides contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For household loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, members of the Bank require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Bank, and the policies are vinkulated for the benefit of the Bank.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Bank protects against potential losses due to inability to collect collateral from collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the bank pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Bank (realized sales, supply and demand) by the regions specified in the collateral catalog, using the statistical model, etc. For all business real estate, the Bank conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The value of collateral and the trend of movement is monitored and updated by the members of the bank in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

The total exposure to credit risk as at 31 December 2018 and 2017 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	31.12.2018		31.12.2017	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**427,668,873**	**401,165,980**	**399,678,901**	**369,183,538**
Cash and balances with the central bank	63,595,710	63,595,710	49,840,887	49,840,887
Loans and advances to banks and other financial institutions	18,705,766	18,477,729	29,746,347	29,543,789
Loans and receivables from customers	181,694,980	167,545,674	171,931,966	153,897,367
Financial assets (securities and derivatives)	133,183,262	133,181,667	117,288,770	117,288,767
Other assets	8,657,056	6,612,268	9,347,623	6,798,506
Non monetary assets	21,832,099	11,752,932	21,523,308	11,814,222
II. Off-balance sheet items	**42,261,680**	**41,986,725**	**34,284,701**	**34,160,309**
Payable guarantees	3,107,502	3,037,138	3,443,746	3,416,712
Performance guarantees	3,004,569	2,962,498	4,349,152	4,320,139
Irrevocable liabilities	35,783,262	35,646,780	26,194,257	26,149,893
Other	366,347	340,309	297,546	273,565
Total (I+II)	**469,930,553**	**443,152,705**	**433,963,602**	**403,343,847**

Starting from 1 January 2018 The Bank applies IFRS 9 that replaced IAS 39. Data for 2017 are presented in accordance with the then-applicable IAS 39, and are not comparable with information published for 2018. The differences arising from the application of IFRS 9 are directly recognized through retained earnings as of 1 January 2018. In accordance with the aforementioned, the effects of the first application of IFRS 9 are presented as of 1 Januray 2018.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Total exposure to credit risk – transition to IFRS 9

	IAS 39 31.12.2017				IFRS 9 01.01.2018			
	Category	**Gross**	**Net**	**Reclassified**	**Impairment allowance**	**Gross**	**Net**	**Category**
I, Assets		**282,390,131**	**251,894,771**	**-**	**(852,566)**	**282,390,131**	**251,042,205**	
Cash and balances with the central bank	L&R[1]	49,840,887	49,840,887	-	-	49,840,887	49,840,887	AC[2]
Loans and advances to banks and other financial institutions	L&R	29,746,347	29,543,789	-	(25,260)	29,746,347	29,518,529	AC
Loans and receivables from customers	L&R	171,931,966	153,897,367	-	(752,052)	171,931,966	153,145,315	AC
Financial assets (securities and	L&R	9,347,623	6,798,506	-	(75,254)	9,347,623	6,723,252	AC
Other assets	-	21,523,308	11,814,222	-	-	21,523,308	11,814,222	-
II, Off-balance sheet items		**34,284,701**	**34,160,309**	**-**	**(95,359)**	**34,284,701**	**34,064,951**	
Payable guarantees	L&R	3,443,746	3,416,712	-	(62,424)	3,443,746	3,354,288	AC
Performance guarantees	L&R	4,349,152	4,320,139	-	1,681	4,349,152	4,321,820	AC
Irrevocable liabilities	L&R	26,194,257	26,149,893	-	(38,171)	26,194,257	26,111,723	AC
Other	L&R	297,546	273,565	-	3,555	297,546	277,120	AC
III Financial assets available for sale	**AFS[3]**	**112,019,061**	**112,019,058**	(112,019,058)	-	-	-	-
Reclassified in: Financial assets at fair value through other comprehensive income[6]	-	-	-	**112,019,058**	**(213,775)**	**112,019,061**	**111,805,286**	**FVOCI[4]**
IV Financial assets at fair value through profit and loss held for	**FVPL[5]**	**5,269,709**	**5,269,709**	(5,269,709)	**-**			-
Reclassified in: Financial assets at fair value through profit and loss	-	-	-	**5,269,709**	**-**	**5,269,709**	**5,269,709**	**FVPL**
Total (I+II+III+IV)		**433,963,602**	**403,343,847**	**117,288,767**	**(1,161,700)**	**433,963,602**	**402,182,151**	

L&R[1] – *loans and receivables according to the classification of IAS 39*
AC[2] – *amortised cost according to the classification of IFRS9*
AFS[3] – *items available for sale according to the classification of IAS 39*
FVOCI[4] – *items that are valued at fair value through other comprehensive income according to the classification of IFRS9*
FVPL[5] – *items that are valued at fair value thorough profit and loss held for trading according to the classification of IAS 39, that is items that are valued at fair value thorough profit and loss according to the classification of IFRS9*
[6]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

First adoption of IFRS 9 – effect of impairment allowance

In RSD thousand

	Impairment allowance		
	31.12.2017	IFRS 9	01.01.2018
I. Assets	**30,495,363**	**1,066,341**	**31,561,704**
Cash and balances with the central bank	-	-	-
Loans and advances to banks and other financial institutions	202.558	25,260	227,818
Loans and receivables from customers	18,034,599	752,052	18,786,651
Financial assets (securities and derivatives)[1]	3	213,775	213,778
Other assets	2,549,117	75,254	2,624,371
Assets	9,709,086	-	9,709,086
II. Off-balance sheet items	**124,392**	**95,359**	**219,751**
Payable guarantees	27,034	62,424	89,458
Performance guarantees	29,013	(1,681)	27,332
Irrevocable liabilities	44,364	38,171	82,535
Other	23,981	(3,555)	20,426
Total (I+II)	**30,619,755**	**1,161,700**	**31,781,455**

[1]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

All financial assets are in Stage 1 and relate mostly to Securities issued by the Republic of Serbia, as well as to currency swaps transactions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	**141,744,316**	**4,273,282**	**25,914,368**	**171,931,966**
New receivables	30,289,914	137,022	- -	30,426,936
Decrease/collection of receivables	(14,588,864)	(1,821,871)	(6,065,346)	(22,476,081)
Transfer to stage 1	-	(1,010,298)	(154,256)	(1,164,554)
Transfer to stage 2	(2,272,287)	-	(50,587)	(2,322,874)
Transfer to stage 3	(1,255,531)	(233,550)	-	(1,489,081)
Tranfer from other stages	1,164,554	2,322,874	1,489,081	4,976,509
Other changes	3,785,376	(336,907)	(1,636,310)	1,812,159
31.12.2018	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**

Changes in impairment allowance of loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	**1,253,478**	**96,827**	**17,436,346**	**18,786,651**
New receivables	303,940	6,183	-	310,123
Decrease/collection of receivables	(359,577)	(36,051)	(4,831,938)	(5,227,566)
Transfer to stage 1	-	(21,220)	(88,880)	(110,100)
Transfer to stage 2	(28,386)	-	(25,372)	(53,758)
Transfer to stage 3	(25,805)	(15,024)	-	(40,829)
Tranfer from other stages	110,100	53,758	40,829	204,687
Other changes	(217,503)	163,209	334,393	280,099
31.12.2018	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**

During 2018, transitions of exposures by stages are consequence of regular business changes:

- transition to Stage 1 from Stages 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2017, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stages 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, stage 1 receivables were at Stage 2 before they went into Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In(000) RSD

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	37,397,786	654,204	1,521,937	39,573,927	32,149	18,803	722,406	773,358	38,800,570
Cash Loans	30,038,802	289,400	226,782	30,554,984	98,846	13,125	153,963	265,933	30,289,051
Agricultural Loans	8,357,877	91,169	263,341	8,712,387	60,893	3,809	138,525	203,227	8,509,160
Other Loans	5,193,080	56,258	179,373	5,428,711	31,736	1,384	167,551	200,671	5,228,039
Micro Business	8,694,031	115,982	656,885	9,466,898	120,679	4,018	317,218	441,915	9,024,982
Total retail	**89,681,576**	**1,207,013**	**2,848,318**	**93,736,907**	**344,303**	**41,139**	**1,499,663**	**1,885,105**	**91,851,802**
Large corporate clients	33,953,918	1,658,522	11,595,741	47,208,181	310,263	197,878	7,901,653	8,409,794	38,798,387
Middle corporate clients	6,995,710	211,590	1,935,944	9,143,244	67,366	3,164	1,287,520	1,358,050	7,785,194
Small corporate clients	3,458,723	121,341	1,207,560	4,787,624	36,736	631	632,196	669,563	4,118,060
State owned clients	12,989,199	132,086	503,850	13,625,135	86,779	4,870	139,220	230,869	13,394,267
Other	11,788,352	-	1,405,537	13,193,890	190,800	-	1,405,126	1,595,926	11,597,963
Total corporate	**69,185,902**	**2,123,539**	**16,648,632**	**87,958,073**	**691,944**	**206,543**	**11,365,715**	**12,264,202**	**75,693,871**
Total	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**	**167,545,673**
Due from banks	**18,494,474**	**-**	**211,292**	**18,705,766**	**16,745**	**-**	**211,292**	**228,037**	**18,477,729**

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In(000) RSD

01.01.2018.	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	35,368,842	577,246	1,532,194	37,478,282	35,519	26,327	809,034	870,880	36,607,402
Cash Loans	24,079,084	207,124	302,978	24,589,186	86,943	13,841	246,184	346,968	24,242,218
Agricultural Loans	7,050,263	103,287	205,882	7,359,432	64,279	7,081	108,851	180,211	7,179,221
Other Loans	5,307,149	45,933	383,881	5,736,963	27,892	1,254	365,311	394,457	5,342,506
Micro Business	7,624,833	79,865	697,866	8,402,564	109,126	564	281,635	391,325	8,011,239
Total retail	**79,430,171**	**1,013,455**	**3,122,801**	**83,566,427**	**323,759**	**49,067**	**1,811,015**	**2,183,841**	**81,382,586**
Large corporate clients	33,674,709	1,726,074	16,940,157	52,340,940	594,751	37,386	12,015,302	12,647,439	39,693,501
Middle corporate clients	8,900,885	875,199	2,037,738	11,813,822	84,539	3,779	1,302,482	1,390,800	10,423,022
Small corporate clients	3,683,113	296,786	1,378,923	5,358,822	34,942	1,724	698,416	735,082	4,623,740
State owned clients	9,225,459	361,768	997,190	10,584,417	69,619	4,871	170,041	244,531	10,339,886
Other	6,829,979	-	1,437,559	8,267,538	145,868	-	1,439,090	1,584,958	6,682,580
Total corporate	**62,314,145**	3,259,827	22,791,567	88,365,539	929,719	**47,760**	**15,625,331**	16,602,810	71,762,729
Total	**141,744,316**	**4,273,282**	**25,914,368**	**171,931,966**	**1,253,478**	**96,827**	**17,436,346**	**18,786,651**	**153,145,315**
Due from banks	**29,543,789**	**-**	**202,558**	**29,746,347**	**2,526**	**-**	**202,558**	**227,818**	**29,518,529**

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations

In (000) RSD

31.12.2017.	Nonproblematic receivables	Non-performing receivables	Total	Impairment of Nonproblematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	35,946,088	1,532,193	37,478,281	94,115	520,302	614,417	36,863,864
Cash Loans	24,286,208	302,978	24,589,186	200,232	229,834	430,066	24,159,120
Agricultural Loans	7,153,549	205,883	7,359,432	61,549	100,090	161,639	7,197,793
Other Loans	5,353,083	383,880	5,736,963	76,780	372,548	449,328	5,287,635
Micro Business	7,704,698	697,867	8,402,565	100,490	289,855	390,345	8,012,220
Total Retail	**80,443,626**	**3,122,801**	**83,566,427**	**533,166**	**1,512,629**	**2,045,795**	**81,520,632**
Large corporate clients	35,400,783	16,940,157	52,340,940	260,084	11,881,024	12,141,108	40,199,832
Middle corporate clients	9,776,084	2,037,738	11,813,822	54,739	1,349,336	1,404,075	10,409,747
Small corporate clients	3,979,898	1,378,923	5,358,821	64,820	685,329	750,149	4,608,672
State owned clients	9,612,889	997,190	10,610,079	89,830	166,416	256,246	10,353,833
Other	6,804,318	1,437,559	8,241,877	78	1,437,148	1,437,226	6,804,651
Total Corporate	**65,573,972**	**22,791,567**	**88,365,539**	**469,551**	**15,519,253**	**15,988,804**	**72,376,735**
Total	**146,017,598**	**25,914,368**	**171,931,966**	**1,002,717**	**17,031,882**	**18,034,599**	**153,897,367**
Due from banks	**29,543,789**	**202,558**	**29,746,347**	**-**	**202,558**	**202,558**	**29,543,789**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in value adjustments of receivables in the Balance Sheet

	31.12.2017	01.01.2018	Increase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2018
Total retail	2,045,795	138,046	1,642,145	(1,507,435)	(433,446)	1.885.105
Total corporate	15,988,804	614,006	3,789,725	(3,611,899)	(4,516,434)	12.264.202
Total	**18,034,599**	**752,052**	**5,431,870**	**(5,119,334)**	**(4,949,880)**	**14.149.307**
Due from banks	**202,558**	**25,260**	**66,805**	**(76,584)**	**9,998**	**228,037**

* Other changes relate to the carry-over of entirely impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Bank has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk categoriy 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – stages 1 and 2

For non-problematic receivables (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group level (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (claims in level 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims at level 2). By appreciating specificity in dealings with clients, in particular establishes the migration for economic

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivalbes by days past due – non-problematic receivables, stage 1 and 2

In RSD thousands

31.12.2018	Stage 1 Not due	Stage 1 Due up to 30 days	Stage 1 From 31-60 days	Stage 1 From 61-90 days	Stage 1 Over 90 days	Stage 1 Total	Stage 2 Not due	Stage 2 Due up to 30 days	Stage 2 From 31-60 days	Stage 2 From 61-90 days	Stage 2 Over 90 days	Stage 2 Total
Housing Loans	37,223,680	174,106	-	-	-	**37,397,786**	427,559	53,801	69,467	103,377	-	**654,204**
Cash Loans	27,792,930	2,245,873	-	-	-	**30,038,803**	65,876	55,360	119,999	48,165	-	**289,400**
Agricultural Loans	8,205,610	152,267	-	-	-	**8,357,877**	28,645	1,027	45,606	15,891	-	**91,169**
Other Loans	4,860,799	332,280	-	-	-	**5,193,079**	16,828	3,441	24,572	11,418	-	**56,259**
Micro Businesses	7,751,492	942,539	-	-	-	**8,694,031**	58,824	33,394	23,166	597	-	**115,981**
Retail clients	**85,834,511**	**3,847,065**	**-**	**-**	**-**	**89,681,576**	**597,732**	**147,023**	**282,810**	**179,448**	**-**	**1,207,013**
Large corporate clients	33,652,823	301,095	-	-	-	**33,953,918**	1,255,394	81,730	321,397	-	-	**1,658,521**
Middle corporate clients	6,765,412	230,298	-	-	-	**6,995,710**	163,902	35,601	12,088	-	-	**211,591**
Small corporate clients	3,404,257	54,466	-	-	-	**3,458,723**	110,899	10,433	9	-	-	**121,341**
State owned clients	12,980,623	8,576	-	-	-	**12,989,199**	100,167	31,754	165	-	-	**132,086**
Other	11,788,352	-	-	-	-	**11,788,352**	-	-	-	-	-	**-**
Corporate clients	**68,591,467**	**594,435**	**-**	**-**	**-**	**69,185,902**	**1,630,362**	**159,518**	**333,659**	**-**	**-**	**2,123,539**
Total	**154,425,978**	**4,441,500**	**-**	**-**	**-**	**158,867,478**	**2,228,094**	**306,541**	**616,469**	**179,448**	**-**	**3,330,552**
Out of which: restructured	-	-	-	-	-	-	295,208	26,407	-	9,571	-	331,186
Due from banks	**18,494,474**	**-**	**-**	**-**	**-**	**18,494,474**	**-**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivalbes by days past due, non-problematic receivables

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	35,370,869	292,352	83,716	199,151	-	**35,946,088**
Cash Loans	22,652,874	1,470,506	109,774	53,054	-	**24,286,208**
Agricultural Loans	6,887,620	175,355	69,829	20,745	-	**7,153,549**
Other Loans	5,030,740	288,625	24,275	9,444	-	**5,353,083**
Micro Businesses	6,645,290	1,024,721	31,242	3,446	-	**7,704,698**
Retail clients	**76,587,393**	**3,251,558**	**318,835**	**285,839**	**-**	**80,443,626**
Large corporate clients	35,065,168	148,661	186,954	-	-	**35,400,783**
Middle corporate clients	8,859,787	831,450	84,847	-	-	**9,776,084**
Small corporate clients	3,701,976	268,408	9,514	-	-	**3,979,898**
State owned clients	9,494,453	118,436	-	-	-	**9,612,889**
Other	6,804,266	52	-	-	-	**6,804,318**
Corporate clients	**63,925,650**	**1,367,008**	**281,315**	-	**-**	**65,573,972**
Total	**140,513,043**	**4,618,566**	**600,150**	**285,840**	**-**	**146,017,598**
Out of which: restructured	614,572	165,746	-	-	-	780,319
Due from banks	**25,520,572**	**4,023,218**	**-**	**-**	**-**	**29,543,789**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2018	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	298,814	69,763	40,848	48,572	1,063,940	**1,521,937**
Cash Loans	60,889	23,413	12,821	17,977	111,682	**226,782**
Agricultural Loans	18,824	6,326	3,129	824	234,239	**263,342**
Other Loans	12,035	1,240	295	1,446	164,357	**179,373**
Micro Businesses	69,907	21,155	5,536	16,953	543,333	**656,884**
Retail clients	**460,469**	**121,897**	**62,629**	**85,772**	**2,117,551**	**2,848,318**
Large corporate clients						
Middle corporate clients	1,850,212	7,008	258,670	372,861	9,106,992	**11,595,743**
Small corporate clients	74,482	-	-	-	1,861,461	**1,935,943**
State owned clients	39,097	326,954	13,413	-	828,096	**1,207,560**
Other	324,552	8,458	-	-	170,839	**503,849**
Corporate clients	1,404,715	-	-	-	822	**1,405,537**
	3,693,058	**342,420**	**272,083**	**372,861**	**11,968,210**	**16,648,632**
Total	**4,153,527**	**464,317**	**334,712**	**458,633**	**14,085,761**	**19,496,950**
Out of which: restructured	2,122,009	23,622	36,725	21,914	10,893,051	**13,097,322**
Due from banks	**211,292**	**-**	**-**	**-**	**-**	**211,292**

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties and the Bank has estimated that there is a risk of default by the end of the loan repayment, given that when considering the same, a set of different criteria is used.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	176,439	51,838	16,277	26,621	1,261,018	**1,532,194**
Cash Loans	40,921	14,348	8,515	13,420	225,774	**302,978**
Agricultural Loans	19,594	5,777	9,331	8,430	162,751	**205,882**
Other Loans	10,392	460	475	218	372,334	**383,880**
Micro Businesses	69,521	15,136	937	1,629	610,643	**697,866**
Retail clients	**316,867**	**87,560**	**35,536**	**50,317**	**2,632,521**	**3,122,801**
Large corporate clients	2,262,581	-	-	-	14,677,576	**16,940,157**
Middle corporate clients	93,355	20,675	-	58,566	1,865,142	**2,037,738**
Small corporate clients	87,971	373,012	36,677	2,832	878,430	**1,378,923**
State owned clients	741,052	23,022	-	-	233,116	**997,190**
Other	1,436,737	-	-	-	822	**1,437,559**
Corporate clients	**4,621,696**	**416,709**	**36,677**	**61,398**	**17,655,086**	**22,791,567**
Total	**4,938,564**	**504,269**	**72,213**	**111,715**	**20,287,607**	**25,914,368**
Out of which: restructured	2,541,031	61,564	54,121	73,779	15,991,941	**18,722,435**
Due from banks	**202,558**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans *in RSD thousand*

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**93,736,907**	**1,885,105**	**2,848,318**	**856,108**	**1,499,664**	**3,04%**	**2,539,572**
Housing Loans	39,573,928	773,359	1,521,938	439,228	722,407	3,85%	1,511,459
Cash Loans	30,554,984	265,933	226,782	28,097	153,963	0,74%	132,048
Agricultural Loans	8,712,387	203,227	263,341	16,409	138,525	3,02%	237,991
Other	5,428,711	200,671	179,373	-	167,551	3,30%	1,191
Micro Businesses	9,466,897	441,915	656,884	372,374	317,218	6,94%	656,883
Corporate clients	**87,958,074**	**12,264,202**	**16,648,632**	**12,241,214**	**11,365,714**	**18,93%**	**14,951,036**
Agriculture	5,368,696	114,450	222,617	13,411	85,212	4,15%	222,785
Manufacturing Industry	14,604,683	2,420,833	4,160,130	3,818,420	2,322,335	28,48%	4,154,270
Electric Energy	99,306	3,105	27,298	-	19	27,49%	27,298
Construction	7,781,109	1,205,744	1,592,833	832,676	998,515	20,47%	1,593,206
Wholesale and Retail	23,677,087	901,765	1,875,109	1,612,891	651,402	7,92%	1,868,834
Service Activities	7,280,885	1,223,932	1,494,901	1,477,865	1,187,702	20,53%	1,494,901
Real Estate Activities	4.699.746	729,500	1,323,324	983,040	704,066	28,16%	-
Other	24,446,562	5,664,873	5,952,420	3,502,911	5,416,463	24,35%	4,265,943
Total	**181,694,981**	**14,149,307**	**19,496,950**	**13,097,322**	**12,865,378**	**10,73%**	**17,490,608**
Due from banks	**18,705,766**	**228,037**	**211,292**	**-**	**211,292**	**1,13%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans — *in RSD thousand*

01.01.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**83,566,427**	**2,183,841**	**3,122,801**	**859,561**	**1,811,015**	3,74%	**2,648,094**
Housing Loans	37,478,281	870,881	1,532,195	430,253	809,034	4,09%	1,511,866
Cash Loans	24,589,186	346,968	302,978	27,510	246,184	1,23%	232,677
Agricultural Loans	7,359,432	180,211	205,882	19,626	108,851	2,80%	196,094
Other	5,736,963	394,457	383,880	-	365,311	6,69%	10,416
Micro Businesses	8,402,565	391,324	697,866	382,172	281,635	8,31%	697,041
Corporate clients	**88,365,539**	**16,602,810**	**22,791,567**	**17,862,874**	**15,625,333**	25,79%	**21,102,348**
Agriculture	6,066,845	141,912	253,050	28,243	106,767	4,17%	252,908
Manufacturing Industry	22,380,808	5,914,702	9,145,453	8,191,755	5,759,130	40,86%	6,591,232
Electric Energy	149,035	4,039	67,005	-	174	44,96%	67,005
Construction	5,681,922	970,217	934,013	810,916	890,877	16,44%	1,148,489
Wholesale and Retail	22,011,868	2,021,039	3,652,235	2,846,093	1,727,730	16,59%	3,804,104
Service Activities	13,182,040	1,403,407	1,438,755	1,411,506	1,155,730	10,91%	1,465,235
Real Estate Activities	1.512.515	680,603	1,345,149	960,907	679,338	88,93%	1,370,156
Other	**17,380,506**	**5,466,891**	**5,955,907**	**3,613,454**	**5,305,587**	**34,27%**	**6,403,219**
Total	**171,931,966**	**18,786,651**	**25,914,368**	**18,722,435**	**17,436,348**	**15,07%**	**23,750,442**
Due from banks	**29,746,347**	**227,818**	**202,558**	**-**	**202,558**	**0,68%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans *in RSD thousand*

31.12.2017	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**83,566,427**	**2,045,795**	**3,122,801**	**859,561**	**1,512,629**	**3,74%**	**2,648,094**
Housing Loans	37,478,281	614,417	1,532,194	430,253	520,302	4,09%	1,511,866
Cash Loans	24,589,186	430,066	302,978	27,510	229,833	1,23%	232,677
Agricultural Loans	7,359,432	161,639	205,882	19,626	100,090	2,80%	196,094
Other	5,736,963	449,327	383,880	-	372,548	6,69%	10,416
Micro Businesses	8,402,565	390,345	697,866	382,172	289,855	8,31%	697,041
Corporate	**88,365,539**	**15,988,804**	**22,791,567**	**17,862,874**	**15,519,253**	**25,79%**	**21,102,348**
Agriculture	6,066,845	161,354	253,050	28,243	113,994	4,17%	252,908
Manufacturing Industry	22,380,808	5,941,568	9,145,453	8,191,755	5,721,734	40,86%	6,591,232
Electric Energy	149,035	28,187	67,005	-	174	44,96%	67,005
Construction	5,681,922	891,110	934,013	810,916	885,538	16,44%	1,148,489
Wholesale and Retail	22,011,868	1,845,546	3,652,235	2,846,093	1,756,203	16,59%	3,804,104
Service Activities	13,182,040	1,163,568	1,438,755	1,411,506	1,089,579	10,91%	1,465,235
Real Estate Activities	1,512,515	692,376	1,345,149	960,907	691,123	88,93%	1,370,156
Other	17,380,506	5,265,097	5,955,907	3,613,454	5,260,908	34,27%	6,403,219
Total	**171,931,966**	**18,034,599**	**25,914,368**	**18,722,435**	**17,031,882**	**15,07%**	**23,750,442**
Due from banks	**29,746,347**	**202,558**	**202,558**	**-**	**202,558**	**0,68%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables *in RSD thousand*

	Gross 31.12.2017	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross 31.12.2018	Net 31.12.2018
Housing Loans	1,532,194	244,442	(192,535)	20,210	(82,374)	1,521,937	799,531
Cash Loans	302,978	166,511	(228,844)	(52)	(13,811)	226,782	72,820
Agricultural Loans	205,882	135,157	(61,519)	(369)	(15,810)	263,341	124,816
Other Loans	383,880	90,077	(299,398)	(10)	4,824	179,373	11,821
Micro Businesses	697,866	119,413	(137,675)	(1,466)	(21,253)	656,885	339,666
Retail	**3,122,800**	**755,600**	**(919,971)**	**18,313**	**(128,424)**	2,848,318	**1,348,654**
Large corporate clients	16,940,157	637,059	(5,279,315)	(29,428)	(672,732)	11,595,741	3,694,088
Middle corporate clients	2,037,738	22,365	(78,154)	(4,362)	(41,644)	1,935,943	648,423
Small corporate clients	1,378,923	15,169	(77,188)	(2,445)	(106,898)	1,207,561	575,364
State owned clients	997,190	-	(1,055)	(1,913)	(490,372)	503,850	364,631
Other	1,437,559	-	-	(2,701)	(29,321)	1,405,537	412
Corporate Clients	**22,791,567**	**674,593**	**(5,435,712)**	**(40,849)**	**(1,340,967)**	**16,648,632**	**5.282.918**
Total	**25,914,367**	**1,430,193**	**(6,355,683)**	**(22,536)**	**(1,469,391)**	**19,496,950**	**6.631.572**
Due from banks	**202,558**	**-**	**-**	**8.734**	**-**	**211,292**	**-**

The decrase of problematic receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100%impaired receivables to off-balance sheet records at the parent Bank

Other changes relate to a partial increase/decrease in the amount of receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables(stage 1 and 2)

in RSD thousand

	31.12.2018				31.12.2017			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	37,897,797	154,193	38,051,990	37,867,041	35,707,544	238,544	35,946,088	35,671,079
Cash Loans	30,006,894	321,308	30,328,202	6,122,364	24,222,726	63,482	24,286,208	11,521,899
Agricultural Loans	8,419,685	29,361	8,449,046	6,617,026	7,125,547	28,002	7,153,549	6,059,245
Other Loans	5,211,496	37,842	5,249,338	91,821	5,331,736	21,346	5,353,083	96,689
Micro Businesses	8,414,374	395,639	8,810,013	8,804,246	7,286,079	418,619	7,704,698	7,704,263
Retail	**89,950,246**	**938,343**	**90,888,589**	**59,502,500**	**79,673,633**	**769,993**	**80,443,626**	**61,053,174**
Large corporate clients	30,369,732	5,242,708	35,612,440	32,707,216	34,569,288	831,495	35,400,783	34,954,220
Middle corporate clients	7,100,191	107,110	7,207,301	7,044,748	9,584,446	191,639	9,776,084	9,647,024
Small corporate clients	3,521,734	58,329	3,580,063	3,632,286	3,844,531	135,367	3,979,898	3,955,505
State owned clients	10,926,175	2,195,210	13,121,386	10,060,358	7,794,070	1,818,819	9,612,889	6,158,448
Other	11,788,160	92	11,788,252	8,742,174	3,052,381	3,751,937	6,804,318	3,752,134
Corporate Clients	**63,705,993**	**7,603,449**	**71,309,442**	**62,186,782**	**58,844,716**	**6,729,257**	**65,573,972**	**58,467,332**
Total	**153,656,238**	**8,541,792**	**162,198,031**	**121,689,281**	**138,518,348**	**7,499,250**	**146,017,598**	**119,520,506**
Due from banks	**18,494,474**	**-**	**18,494,474**	-	**29,543,789**	**-**	**29,543,789**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In RSD thousand

31.12.2018	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables-stage 2	Resturctured receivables stage 3	Impairment of restructured receivables-stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**93,736,907**	**1,885,105**	**1,096,805**	**344,729**	**240,697**	**7,605**	**856,108**	**337,124**	**1,17%**	**1,094,194**
Housing Loans	39,573,927	773,358	675,476	191,582	236,248	7,545	439,228	184,037	1,71%	675,277
Cash Loans	30,554,984	265,933	28,097	11,556	-	-	28,097	11,556	0,09%	25,912
Agricultural Loans	8,712,387	203,227	17,857	5,531	1,448	-	16,409	5,531	0,20%	17,630
Other	5,428,711	200,671	-	-	-	-	-	-	0,00%	-
Micro Businesses	9,466,897	441,915	375,375	136,060	3,001	61	372,374	135,999	3,97%	375,375
Corporate Clients	**87,958,074**	**12,264,202**	**12,331,703**	**8,712,244**	**90,489**	**14,972**	**12,241,214**	**8,697,272**	**14,02%**	**12,296,249**
Agriculture	5,368,696	114,450	13,411	-	-	-	13,411	-	0,25%	13,411
Manufacturing Industry	14,604,682	2,420,833	3,818,420	2,301,616	-	-	3,818,420	2,301,616	26,15%	3,812,560
Electric Energy	99,306	3,105	-	-	-	-	-	-	0,00%	-
Construction	7,781,109	1,205,744	832,676	811,000	-	-	832,676	811,000	10,70%	832,676
Wholesale and Retail	23,677,087	901,765	1,692,947	561,400	80,056	14,972	1,612,891	546,428	7,15%	1,663,353
Service Activities	7,280,885	1,223,932	1,477,865	1,187,615	-	-	1,477,865	1,187,615	20,30%	1,477,865
Real Estate Activities	4.699.746	729,500	993,473	683,104	10,433	-	983,040	683,104	21,14%	993,473
Other	24,446,562	5,664,873	3,502,911	3,167,509	-	-	3,502,911	3,167,509	14,33%	3,502,911
Total	**181,694,980**	**14,149,307**	**13,428,508**	**9,056,973**	**331,186**	**22,578**	**13,097,322**	**9,034,395**	**7,39%**	**13,390,443**
Due from banks	**18,705,766**	**228,037**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In RSD thousand

31.12.2017	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**83,566,427**	**2,045,795**	**1,093,014**	**859,561**	**310,969**	**1,31%**	**1,089,912**
Housing Loans	37,478,281	614,417	655,486	430,253	164,162	1,75%	654,999
Cash Loans	24,589,186	430,066	35,466	27,510	13,135	0,14%	33,730
Agricultural Loans	7,359,432	161,639	19,626	19,626	5,399	0,27%	18,746
Other	5,736,963	449,327	-	-	-	0,00%	-
Micro Businesses	8,402,565	390,345	382,436	382,172	128,273	4,55%	382,436
Corporate Clients	**88,365,539**	**15,988,804**	**18,409,740**	**17,862,874**	**12,699,795**	**20,83%**	**18,381,116**
Agriculture	6,066,845	161,354	28,243	28,243	16,593	0,47%	28,243
Manufacturing Industry	22,380,808	5,941,568	8,598,619	8,191,755	5,660,335	38,42%	8,591,732
Electric Energy	149,035	28,187	-	-	-	0,00%	-
Construction	5,681,922	891,110	831,141	810,916	788,286	14,63%	831,141
Wholesale and Retail	22,011,868	1,845,546	2,946,223	2,846,093	1,224,670	13,38%	2,924,486
Service Activities	13,182,040	1,163,568	1,431,154	1,411,506	1,089,580	10,86%	1,431,154
Real Estate Activities	1,512,515	692,376	960,907	960,907	673,604	63,53%	960,907
Other	17,380,506	5,265,097	3,613,454	3,613,454	3,246,727	20,79%	3,613,454
Total	**171,931,966**	**18,034,599**	**19,502,754**	**18,722,435**	**13,010,764**	**11,34%**	**19,471,028**
Due from banks	**29,746,347**	**202,558**	**-**	**-**	**-**	**0,00%**	**-**

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In RSD thousand

	Gross 31.12.2017	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2018	Net 31.12.2018
Housing Loans	655,486	61,299	(17,214)	13,472	(37,567)	675,476	483,894
Cash Loans	35,466	11,390	(15,947)	(34)	(2,777)	28,097	16,541
Agricultural Loans	19,626	1,448	(631)	(45)	(2,542)	17,857	12,326
Other Loans	-	-	-	-	-	-	-
Micro Businesses	382,436	3,001	(3,247)	(860)	(5,955)	375,375	239,316
Retail	**1,093,014**	**77,139**	**(37,039)**	**12,533**	**(48,841)**	**1,096,805**	**752,076**
Large corporate clients	16,657,832	-	(5,091,319)	(28,635)	(675,267)	10,862,610	3,130,305
Middle corporate clients	1,264,760	-	(171,324)	(2,891)	(10,716)	1,079,829	340,768
Small corporate clients	486,093	10,433	(73,487)	(1,132)	(32,643)	389,263	148,385
State owned clients	1,055	-	(1,055)	(2)	2	-	-
Other	-	-	-	-	-	-	-
Corporate Clients	**18,409,740**	**10,433**	**(5,337,186)**	**(32,661)**	**(718,623)**	**12,331,703**	**3,619,459**
Total	**19,502,754**	**87,572**	**(5,374,225)**	**(20,128)**	**(767,464)**	**13,428,508**	**4,371,535**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The decrase of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100%impaired receivables to off-balance sheet records at the parent Bank. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Bank members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Bank (collateral or financial approval of favorable repayment terms),
- partial write-offs - in the past period, the Bank members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4.1.5. Risk of concentration

The Bank manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Bank on an annual basis depending on market trends, appetite for risk, business policy Bank and the annual business plan, reviewed and, if necessary, changes internally set limits.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In RSD thousand

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

31.12.2018	Non problematic receivables					problematic receivables				
	Serbia	**Montenegro**	**BiH**	**EU**	**Other**	**Serbia**	**Montenegro**	**BiH**	**EU**	**Other**
Retail	**90,888,589**	**-**	**-**	**-**	**-**	**2,848,318**	**-**	**-**	**-**	**-**
Housing Loans	38,051,990	-	-	-	-	1,521,937	-	-	-	-
Cash Loans	30,328,202	-	-	-	-	226,782	-	-	-	-
Agricultural Loans	8,449,046	-	-	-	-	263,341	-	-	-	-
Other	5,249,338	-	-	-	-	179,373	-	-	-	-
Micro Businesses	8,810,013	-	-	-	-	656,884	-	-	-	-
Corporate Clients	**59,521,054**	**3,442,252**	**8,346,136**	**-**	**-**	**16,648,632**	**-**	**-**	**-**	-
Agriculture	5,146,080	-	-	-	-	222,617	-	-	-	-
Manufacturing Industry	10,444,552	-	-	-	-	4,160,130	-	-	-	-
Electric Energy	72,008	-	-	-	-	27,298	-	-	-	-
Construction	6,188,277	-	-	-	-	1,592,833	-	-	-	-
Wholesale and Retail	21,801,978	-	-	-	-	1,875,109	-	-	-	-
Service Activities	5,785,984	-	-	-	-	1,494,901	-	-	-	-
Real Estate Activities	3.376.422	-	-	-	-	1,323,324	-	-	-	-
Other	6,705,753	3,442,252	8,346,136	-	-	5,952,421	-	-	-	-
Total	**150,409,643**	**3,442,252**	**8,346,136**	**-**	**-**	**19,496,950**	**-**	**-**	**-**	**-**
Due from banks	**6,459,266**	**8,705**	**105,045**	**9,334,204**	**2,587,254**	**-**	**-**	**-**	**-**	**211.292**

Total credit exposure nonproblematic receivables are Montenegro and Bosnia and Herzegovina and are located in Stage 1.
Depending on general economic trends and developments in individual industrial sectors, the Bank members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In RSD thousand

	Non problematic receivables					Problematic receivables				
31.12.2017	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**
Retail	**80,443,626**	**-**	**-**	**-**	**-**	**3,122,801**	**-**	**-**	**-**	**-**
Housing Loans	35,946,088	-	-	-	-	1,532,194	-	-	-	-
Cash Loans	24,286,208	-	-	-	-	302,978	-	-	-	-
Agricultural Loans	7,153,549	-	-	-	-	205,882	-	-	-	-
Other	5,353,083	-	-	-	-	383,880	-	-	-	-
Micro Businesses	7,704,698	-	-	-	-	697,866	-	-	-	-
Corporate Clients	**58,769,024**	**3,751,885**	**3,053,064**	**-**	**-**	**22,791,567**	**-**	**-**	**-**	**-**
Agriculture	5,813,795	-	-	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	-	-	-	-	9,145,453	-	-	-	-
Electric Energy	82,030	-	-	-	-	67,005	-	-	-	-
Construction	4,747,909	-	-	-	-	934,013	-	-	-	-
Wholesale and Retail	18,359,633	-	-	-	-	3,652,235	-	-	-	-
Service Activities	11,743,285	-	-	-	-	1,438,755	-	-	-	-
Real Estate Activities	167,366	-	-	-	-	1,345,149	-	-	-	-
Other	4,619,651	3,751,885	3,053,064	-	-	5,955,907	-	-	-	-
Total	**139,212,649**	**3,751,885**	**3,053,064**	**-**	**-**	**25,914,368**	**-**	**-**	**-**	**-**
Due from banks	**7,883,218**	**8,655**	**494,798**	**4,649,755**	**16,507,363**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In RSD thousand

	31.12.2018		31.12.2017	
	Gross	Net	Gross	Net
Financial assets:	-	-	-	-
− at fair value through profit and loss	4,813,880	4,813,880	-	-
− at fair value through other comprehensive income	128,369,382	128,367,788	-	-
− at amortised cost	-	-	-	-
- at fair value through profit and loss held for trading	-	-	5.269.709	5,269,709
- available for sale	-	-	112,019,061	112,019,058
- held to maturity	-	-	-	-
Total	**133,183,262**	**133,181,668**	**117,288,770**	**117,288,767**

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) , as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska municipality bonds and bonds of other banks.

Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral — in RSD thousand

	Stage 1					Stage 2				
31.12.2018	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	34,299,759	12,509	-	2,901,626	**37,213,894**	634,773	-	-	18,374	**653,147**
Cash Loans	44,976	544,305	-	5,411,958	**6,001,240**	-	14,515	-	106,609	**121,125**
Agricultural Loans	3,128,582	126,409	14,064	3,271,857	**6,540,912**	52,141	-	-	23,974	**76,115**
Other	-	4,389	-	87,364	**91,753**	-	-	-	69	**69**
Micro Businesses	1,479,436	648,308	-	6,560,521	**8,688,265**	14,236	3,908	-	97,837	**115,981**
Total Retail	**38,952,754**	**1,335,919**	**14,064**	**18,233,327**	**58,536,063**	**701,150**	**18,424**	**-**	**246,863**	**966,436**
Large Corporate Clients	21,269,065	322,031	101,803	9,385,388	**31,078,288**	554,800	-	-	1,074,128	**1,628,928**
Middle Corporate Clients	2,168,776	280,297	-	4,384,084	**6,833,158**	120,526	-	21,718	69,347	**211,590**
Small Corporate Clients	1,098,757	190,487	-	2,221,647	**3,510,891**	66,590	54,796	-	9	**121,395**
State	614,943	1,182	1,580,848	7,731,818	**9,928,791**	-	-	-	131,567	**131,567**
Other	-	-	-	8,742,174	**8,742,174**	-	-	-	-	**-**
Corporate Clients	**25,151,541**	**793,998**	**1,682,652**	**32,465,111**	**60,093,302**	**741,915**	**54,796**	**21,718**	**1,275,050**	**2,093,479**
Total	**64,104,295**	**2,129,917**	**1,696,716**	**50,698,438**	**118,629,365**	**1,443,065**	**73,220**	**21,718**	**1,521,913**	**3,059,916**
Of which: restructured	-	-	-	-	-	286,060	-	-	15,532	301,592
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*** Other collateral relating to the pledge on the goods, the lien on the receivables, the pledge on equipment, warranty.**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

in RSD thousand

31.12.2018	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,438,831	-	-	72,628	**1,511,459**
Cash Loans	9,982	1,165	-	120,901	**132,048**
Agricultural Loans	172,246	-	192	65,552	**237,991**
Other	-	-	-	1,191	**1,191**
Micro Businesses	513,503	5,157	-	138,223	**656,883**
Total Retail	**2,134,562**	**6,322**	**192**	**398,495**	**2,539,572**
Large Corporate Clients	9,904,778	-	-	1,686,932	**11,591,710**
Middle Corporate Clients	1,548,980	-	-	267,116	**1,816,096**
Small Corporate Clients	1,098,275	-	-	113,097	**1,211,372**
State	7,306	-	297,254	27,298	**331,859**
Other	-	-	-	-	**-**
Corporate Clients	**12,559,340**	**-**	**297,254**	**2,094,442**	**14,951,036**
Total	**14,693,902**	**6,322**	**297,447**	**2,492,938**	**17,490,608**
Of which: restructured	11,513,479	-	-	1,575,372	13,088,851
Due from banks	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

31.12.2017	Nonproblematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	34,361,505	3,482	-	1,306,093	35,671,079	1,445,867	-	-	65,999	1,511,866
Cash Loans	57,369	427,817	-	11,036,713	11,521,899	9,447	7,157	-	216,073	232,677
Agricultural Loans	3,058,425	27,539	29,110	2,944,170	6,059,245	145,561	-	12	50,521	196,094
Other	-	5,115	-	91,574	96,689	8,968	4	-	1,444	10,416
Micro Businesses	1,424,581	483,147	-	5,796,535	7,704,263	520,421	3,973	-	172,647	697,041
Total Retail	**38,901,880**	**947,100**	**29,110**	**21,175,085**	**61,053,174**	**2,130,264**	**11,134**	**12**	**506,683**	**2,648,094**
Large Corporate Clients	16,630,551	249,954	6,161,689	11,912,027	34,954,220	14,634,237	-	-	2,301,515	16,935,752
Middle Corporate Clients	4,664,724	450,957	-	4,531,344	9,647,024	1,806,786	-	-	224,391	2,031,176
Small Corporate Clients	1,493,305	346,296	-	2,115,904	3,955,505	1,249,791	14	-	134,348	1,384,153
State	397,383	2,261	709,940	5,048,865	6,158,448	9,160	-	669,596	72,511	751,267
Other	-	-	-	3,752,134	3,752,134	-	-	-	-	-
Corporate Clients	**23,185,962**	**1,049,468**	**6,871,628**	**27,360,273**	**58,467,332**	**17,699,973**	**14**	**669,596**	**2,732,765**	**21,102,349**
Total	**62,087,842**	**1,996,568**	**6,900,738**	**48,535,358**	**119,520,506**	**19,830,238**	**11,148**	**669,608**	**3,239,449**	**23,750,442**
Of which: restructured	459,915	20,225	59,233	219,208	758,582	16,683,792	-	-	2,028,654	18,712,446
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan To Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	December 31, 2018	December 31, 2017
Less than 50%	27,640,458	27,072,008
50%- 70%	18,738,367	15,683,073
71%- 100%	19,798,281	17,678,221
101%- 150%	8,671,141	8,586,921
More than 150%	10,272,865	16,557,852
Total exposure	**85,121,112**	**85,578,076**
Average LTV	**68.98%**	**69.05%**

4.1.8. Foreclosed assets

Foreclosed assets taken by the Bank in the process of collection of placements are presented in the following review:

In thousands of RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2017	75,116	1,949,628	111,605	162,889	2,299,238
Acquisition	-	-	-	-	-
Sale	-	-	-	-	-
Transfer to invesment proprety	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-
Transfer to fixed assets	-	(30,480)	-	-	(30,480)
Other	-	-	(62)	-	(62)
31.12.2018	**75,116**	**1,919,147**	**111,543**	**162,889**	**2,268,696**
Impairment Allowances	**30,548**	**790,053**	**89,295**	**39,833**	**949,729**
Net	**44,569**	**1,129,094**	**22,248**	**123,056**	**1,318,967**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Bank respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Bank members, whose decisions may influence the Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

• diversifies sources of funds, by currency and maturity;
• form and maintain sufficient level of liquidity reserves;
• manages funds;
• monitor future cash flows and liquidity on a daily basis;
• limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
• defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk(continued)

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

• GAP analysis;
• Rational analysis;
• Stress test.

Mitigation involves maintaining the liquidity risk at an acceptable level for the Bank's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Bank's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

The Bank during 2018 has aligned its operations with a liquidity coverage ratio indicator in all currencies, which maintains at a level not lower than 100%

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
As at December 31	3.86	4.30	3.56	4.10	395%	436%
Average for the period	4.38	3.99	4.10	3.61	444%	
Maximum for the period	4.92	5.61	4.68	5.21	495%	-
Minimum for the period	3.19	2.79	2.94	2.41	388%	-

During 2018, the liquidity indicator, the narrow liquidity indicator and the indicator of liquidity coverage ratio ranged above the defined limits.

The Bank defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2018	2017
GAP up to 1 month / Total assets	Max (10%)	1.57%	2.16%
Cumulative GAP up to 3 months / Total assets	Max (20%)	1.85%	5.97%

In addition, the Bank limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,216,102	2,227,838	1,190	1,032,599	-	18,477,729
Loans and receivables due from Customers	8,456,758	7,926,685	36,576,671	71,432,208	43,153,352	167,545,674
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,294
Total	100,160,126	21,270,121	55,753,696	158,723,111	50,681,020	386,588,074
Deposits and other liabilities due to banks, other financial institutions and central bank	3,825,579	1,768,283	35,548	33,338	-	5,662,748
Deposits and other liabilities due to Customers	234,415,598	10,547,173	44,778,288	25,734,422	1,753,603	317,229,084
Other liabilities	2,189,505	175,398	6,173,267	19,445	-	8,557,615
Total	**240,430,682**	**12,490,854**	**50,987,103**	**25,787,205**	**1,753,603**	**331,449,447**
Net liquidity gap, As of December 31, 2018	**(140,270,556)**	**8,779,267**	**4,766,593**	**132,935,906**	**48,927,417**	**55,138,627**
As of December 31, 2017	**(123,441,719)**	**14,070,310**	**526,461**	**121,922,574**	**37,718,448**	**50,796,074**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,686,959	3,818,128	169,242	869,460	-	29,543,789
Loans and receivables due from Customers	9,806,670	8,007,522	31,304,441	66,132,086	38,646,648	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
Total	**91,027,183**	**27,148,949**	**51,128,037**	**145,888,815**	**39,476,118**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,282,217	745,420	759,789	745,079	-	4,532,505
Deposits and other liabilities due to Customers	207,084,364	12,241,246	48,205,484	23,182,876	1,757,670	292,471,640
Other liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
Total	**214,468,902**	**13,078,639**	**50,601,576**	**23,966,241**	**1,757,670**	**303,873,028**
Net liquidity gap						
As of December 31, 2017	**(123,441,719)**	**14,070,310**	**526,461**	**121,922,574**	**37,718,448**	**50,796,074**
As of December 31, 2016	**(115,635,179)**	**9,196,993**	**11,952,038**	**101,113,826**	**36,859,199**	**43,486,877**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and avista deposits will be withdrawn within one month.

The Bank collects deposits of corporate and retail secotr, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Bank's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Bank manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves.

The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis.

The Bank regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash Flows of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,217,369	2,236,892	6,369	1,042,878	-	18,503,508
Loans and receivables due from customers	9,174,190	9,253,466	41,737,558	86,420,854	56,288,262	202,874,330
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,293
Total	**100,878,825**	**22,605,956**	**60,919,762**	**173,722,036**	**63,815,930**	**421,942,508**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,829,992	1,783,138	35,838	35,190	-	5,684,158
Deposits and other liabilities due to customers	234,590,393	10,627,123	45,268,089	26,959,699	2,127,457	319,572,761
Other liabilities	2,189,505	175,398	6,173,268	19,445	-	8,557,616
Total	**240,609,890**	**12,585,659**	**51,477,195**	**27,014,334**	**2,127,457**	**333,814,535**
Net liquidity gap						
As of December 31, 2018	**(139,731,065)**	**10,020,297**	**9,442,567**	**146,707,702**	**61,688,473**	**88,127,973**
As of December 31, 2017	**(122,823,021)**	**15,211,425**	**5,093,059**	**135,183,557**	**49,982,773**	**82,647,793**

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,694,834	3,819,423	176,500	871,997	-	29,562,754
Loans and receivables due from customers	10,488,970	9,281,745	36,391,907	80,244,629	51,323,984	187,731,235
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
Total	**91,717,358**	**28,424,467**	**56,222,761**	**160,003,895**	**52,153,454**	**388,521,935**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,282,295	768,351	774,739	753,956	-	4,579,341
Deposits and other liabilities due to customers	207,155,763	12,352,718	48,718,660	24,028,096	2,170,681	294,425,918
Other liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
Total	**214,540,379**	**13,213,042**	**51,129,702**	**24,820,338**	**2,170,681**	**305,874,142**
Net liquidity gap						
As of December 31, 2017	**(122,823,021)**	**15,211,425**	**5,093,059**	**135,183,557**	**49,982,773**	**82,647,793**
As of December 31, 2016	**(115,241,739)**	**10,824,890**	**17,037,970**	**115,516,149**	**49,587,258**	**77,724,528**

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates.

4. RISK MANAGEMENT (continued)

4.3. Market risk

Market risk is the possibility of adverse effects on the Bank's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Bank is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Bank members whose decisions may influence the Bank's exposure to this risk.

Interest rate risk is the risk of adverse effects on the Bank's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Bank manages the following types of interest rate risk:

• risk of time mismatch of repayment and repricing risk;
• yield curve risk - to whom it is exposed due to change in yield curve shape;
• base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Bank manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

The Bank particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile and implies the process of defining the Bank's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Bank's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management.

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2018	2017
Relative GAP	Max 15%	2.01%	2.18%
Coefficient of Disparity	0.75 – 1.25	1.02	1.03

During 2018, interest rate risk indicators moved within internally defined limits.
In addition, the Bank has defined the internal limits for exposure to interest rate risk by significant currencies and the limit of the maximum economic value of capital.
Compliance with internally defined limits of economic value of capital:

	2018	2017
On December 31st	4.30%	3.65%
Average for period	4.77%	3.86%
Maximum for period	5.72%	4.49%
Minimum for period	4.00%	3.03%
Limit	**20%**	**20%**

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4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2018

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 - 12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	23,573,523	-	-	-	-	23,573,523	40,022,187	63,595,710
Loans and receivables due from banks and other financial institutions	15,108,994	2,227,838	1,190	200,130	-	17,538,152	939,577	18,477,729
Loans and receivables due from customers	46,406,690	14,941,447	43,932,737	56,082,686	5,877,718	167,241,278	304,396	167,545,674
Financial assets (securities)	11.065.869	10.552.011	17.313.062	86.255.911	7.527.551	132.714.404	467.263	133.181.667
Other assets	-	-	-	-	-	-	3.787.294	3.787.294
Total	**96.155.076**	**27.721.296**	**61.246.989**	**142.538.727**	**13.405.269**	**341.067.357**	**45.520.717**	**386.588.074**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,829,350	1,767,067	35,548	33,338	-	5,665,303	(2,555)	5,662,748
Deposits and other liabilities due to customers	235,775,655	11,377,887	43,179,431	24,477,719	1,535,543	316,346,235	882,849	317,229,084
Other liabilities	-	-	-	-	-	-	8,557,615	8,557,615
Total	**239.605.005**	**13,144,954**	**43,214,979**	**24,511,057**	**1,535,543**	**322.011.538**	**9.437.909**	**331,449,447**
Interest rate GAP								
-At December 31, 2018	**(143.449.929)**	**14.576.342**	**18.032.010**	**118.027.670**	**11.869.726**	**19.055.819**	**36.082.808**	**55.138.627**
-At December 31, 2017	**(121,279,033)**	**14,046,387**	**7,000,395**	**108,437,184**	**10,012,306**	**18,217,238**	**32,578,836**	**50,796,074**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2017

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 - 12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	15,047,611	-	-	-	-	15,047,611	34,793,276	49,840,887
Loans and receivables due from banks and other financial institutions	24,532,121	3,818,116	169,243	33,819	-	28,553,299	990,490	29,543,789
Loans and receivables due from customers	45,939,381	12,171,594	33,502,849	50,835,801	10,972,279	153,421,904	475,463	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,355	78,671,309	336,070	117,288,767	-	117,288,767
Other assets	-	-	-	-	-	-	4,098,292	4,098,292
Total	**90,193,240**	**29,942,616**	**53,326,447**	**129,540,929**	**11,308,349**	**314,311,581**	**40,357,521**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,289,289	2,168,102	58,951	13,295	22,397	4,552,035	(19,530)	4,532,505
Deposits and other liabilities due to customers	209,182,984	13,728,127	46,267,101	21,090,450	1,273,646	291,542,308	929,332	292,471,640
Other liabilities	-	-	-	-	-	-	6,868,883	6,868,883
Total	211,472,273	15,896,229	46,326,052	21,103,745	1,296,043	296,094,343	7,778,685	303,873,028
Interest rate GAP								
-At December 31, 2017	**(121,279,033)**	**14,046,387**	**7,000,395**	**108,437,184**	**10,012,306**	**18,217,238**	**32,578,836**	**50,796,074**
-At December 31, 2016	**(97,571,970)**	**5,932,976**	**8,882,021**	**79,614,084**	**14,167,934**	**11,025,043**	**32,461,835**	**43,486,878**

4. RISK MANAGEMENT (continued)

4.3. *Market risks* (continued)

4.3.1. Interest rate risk

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Bank members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Bank regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Bank.

The Bank assesses the impact that standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

In modeling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Bank on the basis of historical developments and expert assessments, is specifically considered, the Bank has carried out an estimate of the movement of transaction deposits, demand deposits and household savings by applying relevant statistical models from domain analysis of time series.

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	**Parallel reduction of 100 bp.**
2018		
At 31 December	397,617	(397,617)
2017		
At 31 December	346,337	(346,337)

4.3 2. Foreign exchange risk

The Bank is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. All positions contained in the banking book and trading book in foreign currency and gold, as well as dinar (RSD) positions indexed by currency clause are exposed to foreign exchange risk.

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk (continued)

In order to minimize exposure to foreign exchange risk, the Bank performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Bank comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures.

Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system. The Bank coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital. Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at 31 December:

	2018	2017
Total risk foreign exchange position	1,064,940	2,248,347
Foreign exchange risk indicator	1.9%	4.4%
Regulatory limit	20%	20%

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4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk

Review of monetary assets and monetary liabilities by currencies as at 31 December 2018

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,651,089	114,133	620,428	481,553	**33,867,203**	-	-	-	29,728,507	63,595,710
Loans and receivables due from banks and other financial institutions	7,361,578	2,063,711	3,065,118	2,197,712	**14,688,119**	-	-	-	3,789,610	18,477,729
Loans and receivables due from customers	15,297,168	-	-	-	**15,297,168**	101,017,998	-	3,651,403	47,579,105	167,545,674
Financial assets (securities)	66,540,863	11,114,968	1,702,199	-	**79,358,030**	249,591	-	-	53,574,046	133,181,667
Other assets	1,148,340	95,892	63,825	1,295	**1,309,352**	-	-	-	2,477,942	3,787,294
Total	**122,999,038**	**13,388,704**	**5,451,570**	**2,680,560**	**144,519,872**	**101,267,589**	**-**	**3,651,403**	**137,149,210**	**386,588,074**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,337,798	828,756	364,639	29,583	**3,560,776**	19,073	-	-	2,082,899	5,662,748
Deposits and other liabilities due to customers	218,260,607	11,894,683	8,620,407	2,590,604	**241,366,301**	468,239	19,705	-	75,374,839	317,229,084
Other liabilities	742,789	121,323	108,507	30,146	**1,002,765**	-	-	-	7,554,850	8,557,615
Total	**221,341,194**	**12,844,762**	**9,093,553**	**2,650,333**	**245,929,842**	**487,312**	**19,705**	**-**	**85,012,588**	**331,449,447**
Net Currency Position, 31 December 2018	**(98,342,156)**	**543,942**	**(3,641,983)**	**30,227**	**(101,409,970)**	**100,780,277**	**(19,705)**	**3,651,403**	**52,136,622**	**55,138,627**

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December 31, 2018

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk

Review of monetary assets and monetary liabilities by currencies as at 31 December 2017

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	30,613,336	149,359	510,641	476,712	31,750,048	-	-	-	18,090,839	49,840,887
Loans and receivables due from banks and other financial institutions	6,471,500	2,901,236	2,696,013	2,187,682	14,256,431	-	-	-	15,287,358	29,543,789
Loans and receivables due from customers	11,565,610	-	-	-	11,565,610	95,727,011	-	4,011,996	42,592,750	153,897,367
Financial assets (securities)	70,944,119	9,062,663	1,782,330	-	81,789,112	332,778	-	-	35,166,877	117,288,767
Other assets	1,638,400	262,757	886	270	1,902,313	-	-	-	2,195,979	4,098,292
Total	**121,232,965**	**12,376,015**	**4,989,870**	**2,664,664**	**141,263,514**	**96,059,789**	**-**	**4,011,996**	**113,333,803**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,563,823	189,871	135,310	29,842	3,918,846	14,193	-	-	599,466	4,532,505
Deposits and other liabilities due to customers	211,143,575	10,753,027	8,623,783	2,533,382	233,053,767	203,045	18,890	-	59,195,938	292,471,640
Other liabilities	1,337,660	1,026,547	84,513	12,923	2,461,643	8,921	-	-	4,398,319	6,868,883
Total	**216,045,058**	**11,969,445**	**8,843,606**	**2,576,147**	**239,434,256**	**226,159**	**18,890**	**-**	**64,193,723**	**303,873,028**
Net Currency Position, 31 December 2017	**(94,812,093)**	**406,570**	**(3,853,736)**	**88,517**	**(98,170,742)**	**95,833,630**	**(18,890)**	**4,011,996**	**49,140,080**	**50,796,074**

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December 31, 2018

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk

A review of the ten-day VaR

The Bank also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and / or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Bank's portfolio for a certain period and at a predetermined confidence interval. The Bank calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Bank calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2018 and 2017 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2018				
Foreign currency risk	18,360	14,039	36,751	554
2017				
Foreign currency risk	27,581	28,580	54,272	15,905

4. RISK MANAGEMENT (continued)

4.4. Operational risk

Operational risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors and process management.

The Bank monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate banking, retail banking, payment transfers, agency services and asset management.

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Bank is done through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Bank's exposure to operational risk.

The Bank cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Bank takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes.

4. RISK MANAGEMENT (continued)

4.4. Operational risk (continued)

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by the Bank's organizational parts in order to reduce arising operational risks. The Bank assess the risk of entrusting third parties with activities related to the Bank's operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.

With the objective of smooth and continued operation of all significant systems and processes in the Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Bank adopted the Disaster Recovery Plan.

4.5. Risks of investment

The risk of the Bank's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Bank's investment in a person who is not a person in the financial sector may be up to 10%of the Bank's capital, whereby this investment implies an investment by which members of the Bank acquire a holding or shares of a person other than a person in the financial sector. The Bank's total investments in non-entities in the financial sector and in fixed assets and investment property of the Bank may be up to 60%of the Bank's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.6. Risk of exposure

The Bank's large exposure to a single entity or a group of related parties, including entities related to the Bank, is an exposure that exceeds 10%of the Bank's capital.

In its business, the Bank takes care of compliance with the regulatory defined exposure limits:

- Exposure to a single client or a group of related parties must not exceed 25%of the Bank's capital;
- The sum of all large Group exposures must not exceed 400%of the Bank's capital.

Defined limits of exposure to one client or a group of related parties also applies to clients relatedto the Bank.

The Bank's exposure to one entity or group of related parties, as well as the exposure to clients related to the Bank, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.7. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Bank is exposed, or the risk of the possibility of adverse effects on the Bank's financial result and capital due to the inability of the Bank members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

- Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Bank to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;
- Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Bank manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Bank's capital, depending on the country's internal rating category. The Bank performs measurement and control of the exposure of the country risk portfolio based on the Banking of claims according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Bank defines the exposure limits individually by country of origin of the debtor.

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4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

4.8.1. Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of RSD

	31.12.2018					31.12.2017	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables due from customers	167,545,674	163,189,685	-	-	163,189,685	153,897,367	151,658,208
Financial Liabilities							
Deposits and other liabilities due to customers	317,229,084	317,294,651	-	-	317,294,651	292,471,640	292,389,981

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Bank would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Bank. The fair value of investment securities held to maturity is estimated using market prices or by using discounted cash flow models based on current market interest rates offered for instruments of a similar product. Held-to-maturity investments are matured and book values are equall to their fair value.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities (continued)

4.8.2. Financial instruments measured at fair value

In thousands of RSD

	31.12.2018				31.12.2017			
Finacial assets	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit and loss in RSD	459,586	1,197,681	-	1,657,268	-	-	-	-
Financial assets at fair value through profit and loss in foreign currency	318,499	2,838,113	-	3,156,612	-	-	-	-
Financial assets at fair value through other comprehensive income in RSD	-	51,916,780	-	51,916,780	-	-	-	-
Financial assets at fair value through other comprehensive income in foreign currency	12,476,019	63,725,398	249,590	76,451,007	-	-	-	-
Financial assets at fair value through profit and	-	-	-	-	417,643	4,852,066	-	5,269,709
Securities available for sale (in RSD)	-	-	-	-	-	33,137,523	-	33,137,523
Securities available for sale (in foreign currency)	-	-	-	-	-	78,548,757	332,778	78,881,535
Total	**13,254,104**	**119,677,972**	**249,590**	**133,181,667**	**417,643**	**116,538,346**	**332,778**	**117,288,767**

Level 1 comprises financial instruments with whom it can be traded on the stock exchange, while level 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).The fair value of assets for which no direct trading information is available is assigned to level 3.

4. RISK MANAGEMENT (continued

4.9. Capital Management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the goal of capital management is the smooth realization of the Bank's business policy objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main objectives of capital management are:

- maintaining of the minimum regulatory requirement (EUR 10 million);
- maintenance of individual capital buffers;
- respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- maintaining confidence in security and business stability;
- realization of business and financial plans;
- supporting the expected growth in placements;
- enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The Bank's regulatory capital represents the sum of Tier 1 capital (composed of the Common Equity Tier 1 capital and the additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratio represent the ratio of capital (total, Tier 1 or Common Equity Tier 1) of the Bank and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks (including foreign exchange and position risk), operational risk and other risks from Pillar I. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries are determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational riskis calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

Capital adequacy ratios

	In thousands of RSD	
	31.12.2018	**31.12.2017**
Tier 1 capital	58,512,822	55,122,806
Common Equity Tier 1 capital	58,139,312	54,749,296
Additional Tier 1 capital	373,510	373,510
Tier 2 capital	-	-
Deductible items of capital	(1,473,139)	(3,992,144)
Capital	57,039,683	51,130,662
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	161,828,271	146,903,022
Risk exposure amount for operational risk	31,379,213	31,680,737
Risk exposure amount for market risks	2,281,232	4,761,814
Capital adequacy ratio (min. 14.26%)	**29.18%**	**27.89%**
Tier 1 capital adequacy ratio (min. 12.26%)	**29.18%**	**27.89%**
Common Equity Tier 1 capital adequacy ratio (min. 10.76%)	**28.99%**	**27.68%**

During 2018, all prescribed capital adequacy ratios were above regulatory limits (8%+ combined capital buffer, 6%+ combined capital buffer and 4.5%+ combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

By the Capital Management Strategy and Plan, the Bank ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2018, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

- Strategic goals and the period for their realization;
- A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- Procedures for planning an adequate level of available internal capital;
- The way to reach and maintain an adequate level of available internal capital;
- Restrictions on available internal capital;
- Demonstrating and explaining the effects of stress testing on internal capital requirements;
- Allocation of capital;
- Business plan in case of occurrence of unforeseen events.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the Bank;
- is involved in the Bank's management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process in the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:

    a. capital and available internal capital;
    b. minimum capital requirements and internal capital requirements for individual risks;
    c. the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of the placement aims ensure a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

Individual assessment

The Bank assesses the impairment allowance for each individually significant placement with the default status (risky placement, sub-category risk 4D, 4DD and 5 according to the internal rating system) , ie placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, a new assessment of the impairment of placements is made. The materiality threshold is determined by the Bank on the basis of an analysis of the value structure of the portfolio by types of customers and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

5. USE OF ASSESSMENT (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank , due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information to which the Bank has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

5. USE OF ASSESSMENT (continued)

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Bank also determines the probable loss for unused commitments, for which there is not unconditionall and without prior notice, possibile cancelation the contracted obligation. When calculating provisions based on unused commitments, the Bank uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Bank performs valuation of financial instruments by:

- Fair value through profit and loss
- fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through profit and loss are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition. With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity. The amounts shown in the other comprehensive income can not be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

5. USE OF ASSESSMENT (continued)

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensice income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.
- Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.
- The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.
- If the Bank settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

The concept of fair value

When measuring fair values, the Bank identifies methods/techniques that need to maximize the use of observable observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Bank determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Bank performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

5. USE OF ASSESSMENT (continued)

In the event that the market for financial instruments is not active, fair value is determined using methtology assessment. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyzes, and other alternative methods. The selected assessment methodology maximizes the use of market data, is based on the least possible extent on the Bank-specific estimates, includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments , based on Politics and Strategy risk management .

6. SEGMENT REPORTING

The Bank has three operating segments – profit centers, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

When considering profitability / results of each segment, besides income and expenses generated from business with clients, income and expenses from internal relations calculated using transfer prices that are determined based on market price (net income/expenses from internal relations), are included.

Significant impact on the result in 2018 had net indirect write-offs amounting to RSD 9,493 thousand (of which the collected written off receivables amounted to RSD 329,451 thousand).

Also, on the basis of the results, in addition to the indirect impact of net income and net write-down is a gain arising from the cessation of recognition of financial instruments which are valued at depreciation values in the amount of 526,547 thousand RSD on the grounds selling placement more clients.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at the Bank level amounted to RSD 7,353,212 thousand and make up 70% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

To the segment of retail banking refer the amount of RSD 5,764,006 thousands of direct costs (78% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2018, the Bank realized pre-tax profit in the amount of RSD 8,121,073 thousand.

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6. SEGMENT REPORTING (continued)

Operating segments report for 2018 is provided below: in RSD thousand

Revenues and expenses	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Interest income	6,680,347	2,461,416	4,603,145	-	13,744,908
Interest expenses	(630,059)	(178,255)	(101,956)	-	(910,270)
Net interest income	6,050,288	2,283,161	4,501,189	-	12,834,638
Net income/expenses from related party transactions	(727,305)	(601,012)	1,328,317	-	-
Net fee and commission income	3,835,447	757,668	617,034	-	5,210,149
Profit before impairment allowance	**9,158,430,**	**2,439,817**	**6,446,540**	**-**	**18,044,787**
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	9,493
Profit before operating expenses	**9,132,912**	**2,462,270**	**6,459,098**	**-**	**18,054,280**
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(7,353,212)
Net foreign exchange gains/losses	-	-	(7,458)	-	(7,458)
Net other income and expenses	(174,451)	488,639	233,847	-	548,035
Profit before indirect operating expenses	**3,194,455**	**1,540,788**	**6,506,402**	**-**	**11,241,645**
Indirect operating expenses	(1,590,128)	(1,193,677)	(336,767)	-	(3,120,572)
Profit before tax	**1,604,327**	**347,111**	**6,169,635**	**-**	**8,121,073**
Assets per segment					
Cash and cash funds held with the central bank	-	-	63,595,710	-	63,595,710
Loans and receivables due from banks and other financial institutions	-	-	18,477,729	-	18,477,729
Loans and receivables due from customers	91,855,167	75,690,507	-	-	167,545,674
Investment securities	-	-	133,177,598	-	133,177,598
Other	-	-	2,611,859	15,757,411	18,369,270
	91,855,167	**75,690,507**	**217,862,895**	**15,757,411**	**401,165,980**
Liabilities per segment					
Liabilities to banks	-	-	5,662,748	-	5,662,748
Obligations to clients	261,120,783	49,937,553	6,170,748	-	317,229,084
Other	-	-	-	10,713,635	10,713,635
	261,120,783	**49,937,553**	**11,833,496**	**10,713,635**	**333,605,467**

Loans to micro clients are presented within Retail banking segment. Indirect operating expenses refer to expenses that are not controlled by the business Segment

6. SEGMENT REPORTING (continued)

Operating segments report for 2017 is provided below: in RSD thousand

Revenues and expenses	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Interest income	6,367,966	2,649,990	5,034,480	-	14,052,436
Interest expenses	(880,868)	(224,091)	(501,280)	-	(1,606,239)
Net interest income	5,487,098	2,425,899	4,533,200	-	12,446,197
Net income/expenses from related party transactions	(886,255)	(768,155)	1,654,410	-	-
Net fee and commission income	3,198,742	1,290,502	592,982	-	5,082,226
Profit before impairment allowance	**7,799,585**	**2,948,246**	**6,780,592**	**-**	**17,528,423**
Net gains/losses from impairment allowance	(310,881)	266,530	62,234	-	17,883
Profit before operating expenses	**7,488,704**	**3,214,776**	**6,842,826**	**-**	**17,546,306**
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(7,639,242)
Net foreign exchange gains/losses	-	-	(56,358)	-	(56,358)
Net other income and expenses	(82,584)	557,765	55,202	-	530,383
Profit before indirect operating expenses	**1,622,284**	**2,099,822**	**6,658,983**	**-**	**10,381,089**
Indirect operating expenses	(1,612,287)	(1,237,636)	(343,916)	-	(3,193,839)
Profit before tax	**9,997**	**862,186**	**6,315,067**	**-**	**7,187,250**
Assets per segment					
Cash and cash funds held with the central bank	-	-	49,840,887	-	49,840,887
Loans and receivables due from banks and other financial institutions	-	-	29,543,789	-	29,543,789
Loans and receivables due from customers	81,512,171	72,385,196	-	-	153,897,367
Investment securities	-	-	117,288,767	-	117,288,767
Other	-	-	2,611,859	16,000,869	18,612,728
	81,512,171	**72,385,196**	**199,285,302**	**16,000,869**	**369,183,538**
Liabilities per segment					
Liabilities to banks	-	-	4,532,505	-	4,532,505
Obligations to clients	230,900,337	52,610,572	8,960,731	-	292,471,640
Other	-	-	-	8,919,338	8,919,338
	230,900,337	**52,610,572**	**13,493,236**	**8,919,338**	**305,923,483**

Loans to micro clients are presented within Retail banking segment.Indirect operating expenses refer to expenses that are not controlled by the business segment

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable interest rate financial instruments.

(ii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect.

8. NET INTEREST GAINS

Net interest income includes:

	Year ended 2018	(000) RSD 31 December 2017
Loans and receivables due from banks (REPO Placement)	245,310	302,541
Loans and receivables due from customers	9,141,760	9,017,954
The National Bank of Serbia (liquid assets deposited and mandatory reserves	283,703	371,056
Investment securities	4,074,135	4,360,885
Total interest income	**13,744,908**	**14,052,436**
Deposits from and liabilities due to banks and other financial institutions	18,773	100,081
Deposits from and liabilities due to customers	812,122	1,112,608
Borrowings received	79,375	393,550
Total interest expenses	**910,270**	**1,606,239**
Net interest income	**12,834,638**	**12,446,197**

Total interest income and expenses calculated using the effective interest rate method presented in the table above relate to financial assets and liabilities other than those at fair value through profit or loss.

9. NET GAINS FROM FEES AND COMMISSIONS

Net fee and commission income includes:

	Year ended 2018	(000) RSD 31 December 2017
Fees and commission income in domestic currency		
Payment transfer operations	3,577,857	3,243,428
Fees on issued loans and guarantees - retail customers	20,939	28,845
Fees on issued loans and guarantees - corporate customers	93,582	152,973
Fees on purchase and sale of foreign currencies	410,146	455,964
Brokerage and custody fees	31,343	37,390
Fees arising from card operations	2,188,083	1,795,591
Credit Bureau processing fees	69,291	87,771
Other banking services	481,160	544,317
	6,872,401	**6,346,279**
Fees and commission income in foreign currencies		
Payment transfer operations	101,003	109,763
Fees on issued loans and guarantees - corporate customers	8,772	9,250
Brokerage and custody fees	20,858	12,778
Fees arising from card operations	204,768	221,473
Other banking services	70	673
	335,471	**353,937**
Total	**7,207,872**	**6,700,216**
Fee and commission expenses in domestic currency		
Payment transfer operations	135,377	125,732
Fees arising on purchase and sale of foreign currencies	32,831	64,340
Fees arising from card operations	931,307	770,319
Credit Bureau processing fees	64,462	78,149
Other banking services	132,197	139,701
	1,296,174	**1,178,241**
Fee and commission expenses in foreign currencies		
Payment transfer operations	79,817	72,877
Fees arising from card operations	577,283	329,074
Other banking services	44,449	37,798
	701,549	**439,749**
	1,997,723	**1,617,990**
Net fee and commission income	**5,210,149**	**5,082,226**

10. NET GAINS / LOSSES FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the financial assets held for trading include:

	Year ended 2018	(000) RSD 31 December 2017
Gains on the sales of securities and other financial assets held for trading – SWAP	11,915	-
Gains on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	22,647	51,739
Gains on the fair value adjustment of securities – investment units	9,586	12,643
	44,148	64,382
Losses on the sales of securities and other financial assets held for trading – SWAP	-	(7,845)
Losses on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	(72)	-
Net gain/loss	**44,076**	**56,537**

11. NET GAINS / LOSSES FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gain/loss on the grounds of termination of recognition consists of:

	Year ended 2018	(000) RSD 31 December 2017
Gains arising from the cessation of recognition that Finn. instr are valued at fair value through Other Comprehensive Income	86,991	44,534
Gains arising from the cessation of recognition of securities at fair value through income statement	162,425	47,261
Losses arising from the cessation of recognition that Fin. instr are valued at fair value through Other Comprehensive Income	(688)	(211)
Losses from the sale of securities at fair value through income statement	(18,534)	-
Net gain/loss	**230,194**	**91,584**

Gains arising from the cessation of recognition that finance instruments are valued at fair value through Other Comprehensive Income in the amount of 86.991 thousand dinars refer to bonds of the Republic of Serbia, of which in dollars in the amount of one thousand dinars 50.078 and in a foreign currency totalling 36.913 thousands of dinars.

Gains arising from the cessation of recognition of securities and other investments at fair value through income statement in the amount of 162,425 thousand dinars applies to: bonds of the Republic of Serbia in dinars in the amount of 78.148 thousand dinars, the bonds of the Republic of Serbia foreign currency amounting to 80,133 thousand dinars and investment units in total of 4,144 thousand dinars.

Losses arising from derecognition of financial instruments which are measured at fair value through the Other Comprehensive Income of 688 thousand dinars applies to: bonds of the Republic of Serbia in dinars to the tune of 353 thousand dinars and bonds of the Republic of Serbia in foreign currency amounting to 335 thousand dinars.

Losses arising from derecognition of securities and other investments at fair value through income statement amounting to 18,534 thousand dinars applies to: bonds of the Republic of Serbia in dinars worth of 298 thousand RSD, the bonds of the Republic of Serbia in a foreign currency of 9,142 thousand dinars and selling foreign exchange SWAP arrangement amountin 9,094 thousand dinars.

12. NET EXCHANGE RATE LOSSES AND LOSSES ON AGREED CURRENCY CLAUSE

(000) RSD

	Year ended 31 December 2018	2017
Positive currency clause effects-corporate entities	639,208	1,325,087
Positive currency clause effects – value adjustment of securities	2,627	7,533
Foreign exchange gains – value adjustment of liabilities	5,503	17,989
Positive currency clause effects – retail customers	706,052	427,235
Foreign exchange gains	555,299	12,598,243
	1,908,689	**14,376,087**
Negative currency clause effects-corporate entities	(787,602)	(3,575,513)
Negative currency clause effects – value adjustment of securities	(3,357)	(24,147)
Negative currency clause effects – value adjustment of liabilities	(4,636)	(4,170)
Negative currency clause effects – retail customers	(664,949)	(2,546,402)
Foreign exchange losses	(455,603)	(8,282,213)
	(1,916,147)	**(14,432,445)**
Net expense	**(7,458)**	**(56,358)**

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net income from reduction in impairment of financial assets relates to:

(000) RSD

	Year ended 31 December 2018	2017
Impairment allowance of financial assets measured at amortised cost	(5,726,589)	(11,106,990)
Provisions for off-balance sheet items	(360,293)	(276,066)
Impairment allowance for debt securities measured through other comprehensive income	(80,945)	-
Reversal of impairment allowance of financial assets valued at amortised cost	5,487,456	10,340,416
Reversal of provisions for off-balance sheet items	305,089	321,929
Income from collection of receivables previously written-off	329,451	738,594
Gains from Securities at fair value through Other Comprehensive Income	55,324	-
Net gain	**9,493**	**17,883**

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13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

At the position Expense of indirect write-offs the Bank recorded impaprment of the foreclosed assets in the amount of 96,538 thousand dinars (note 32) based on fair value appraisals of immovable property and equipment by certified valuer, in accordance with the internal Act of the Bank.

In the course of 2018 the Bank collected written off receivables in the amount of 329,451 thousand dinars, which for the most part relate to debt collection from off-balance records for previous write off of on-balance to off-balance, out of which collection from retail clients amounts to 134,263 thousand dinars, and the remained of 195,188 thousand dinars refers to the collection of loans from legal entities.

By the end of January 2019 the Bank did not make materially significant collections from imapaired placements that would affect the reversal of provisions.

Effects arising from the credit risks of debt securities in the amount of net expenditures 25,621 thousand dinars the Bank recognised in equity in the position losses of the basis of debt instruments (expenses of debt Securities at fair value through Other Comprehensive Income in the amount of 80,945 thousand dinars and income on the same basis in amount of 55,324 thousand dinars). These positions are excluded from the table below.

The effect of the first application of the IFRS 9 correction 01.01.2018 **In thousands,RSD**

Impairment allowance of financial assets measured at amortised cost i including the effect of the change in the provision for off-balance sheet assets	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
949,746	211,947	1,161,693

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Movement on accounts of Writte-off and provision for off-balance

	Loans and receivables due from banks (Note 25.2)	Loans and receivables due from customers (Note 26.2)	Investment securities (Notes 24)	Investments in Ssupsidiers (Note 27)	Other assets (Note 32)	Off-balance sheet liabilities (Note 36)	Total
Balance as at January 1st, 2018	**202,558**	**18,034,599**	**3**	**2,869,029**	**2,456,863**	**124,392**	**23,687,444**
Correction of the opening balance of IFRS 9 - correction of the results in equity	25,260	752,052	1,828	-	75,248	95,358	949,746
Correction of the initial balance of 100% impaired shares	-	-	-	-	-	(504,732)	(504,732)
Corrected balance as at January 1st, 2018	227,818	18,786,651	1,831	2,869,029	2,027,379	219,750	24,132,458
New impairment allowance	66,805	5,431,870	586	-	227,328	360,293	6,086,882
Decrease in impairment allowance	(76,584)	(5,119,334)	(818)	-	(290,720)	(305,089)	(5,792,545)
Foreign exchange effects	9,171	(11,737)	(5)	-	117	-	(2,454)
Write-offs	-	(5,124,786)	-	-	(4,226)	-	(5,129,012)
Other changes	827	186,643*	-		(7,771)	-	179,699
Balance as of December 31, 2018	**228,037**	**14,149,307**	**1,594**	**2,869,029**	**1,952,107**	**274,954**	**19,475,028**

*effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2018 the Bank increased net expenses from impairment of placements at amortized cost and off-balance provisions in the amount of 294,337 thousand dinars. Among other changes on the impairment accounts the amount of 5,129,012 thousand dinars refers to permanent write-off that the Bank is carried out in 2018, i.e. transfer from balance to off balance records on the basis of the decisions of the NBS of the accounting write off.

14. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

	Year ended 2018	(000) RSD 31 December 2017
Net gains from derecognition of the financial instruments measured at amortised cost	526,547	-
Net gain	**526,547**	-

Gain on this basis in 2018 relates entirely to the sale of claim from one customer on what grounds the Bank received in the amount of EUR 12.9 million or 1,522,765 thousand dinars. On the basis of the transaction has a positive impact on income statement of profit and loss in the amount of 526.547 thosuand dinars.

15. NET GAINS FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

	(000) RSD Year ended 31 December 2018	2017
Gains on sales of Jubmes bank shares	-	306
Net gain	**-**	**306**

16. OTHER OPERATING INCOME

	(000) RSD Year ended 31 December 2018	2017
Other income from operations	145,233	174,837
Revenues from dividends and shares	10,736	9,136
Net gain	**155,969**	**183,973**

In the other operating income in the amount of 145,233 thousand dinars, the most significant amounts relate to revenue from lease of immovable property, including advances received for rental in the amount of 68,272 thousand dinars and refunds of court costs and utility costs in the amount of 49,183 thousands dinars.

In the course of 2018 the Bank received a dividend on the basis of shares and action for trading of 10,736 thousand dinars (2017: 9,137 thousand dinars) which form part of the positions of Other income, and dividends from shares in the VISA Inc. in the amount of 6,154 thousand dinars, Dunav Osiguranje ADO of 3,363 thousand dinars and Mastercard of 1,219 thousand dinars.

17. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, fees, salaries and other personal expenditures consist of:

	(000) RSD Year ended 31 December 2018	2017
Net salaries	2,630,690	2,733,546
Net benefits	463,408	435,931
Payroll taxes	381,607	402,439
Payroll contributions	822,864	830,100
Considerations paid to seasonal and temporary staff	6,141	11,587
Provisions for retirement benefits – net (Note 36)	80,266	33,809
Other staff costs	57,823	72,785
Total	**4,442,799**	**4,520,197**

18. DEPRECIATION/AMORTIZATION CHARGE

	(000) RSD Year ended 31 December 2018	2017
Amortization charge – intangible assets (Note 28.2)	139,188	143,181
Depreciation charge – property and equipment (Note 29.2)	376,772	379,746
Depreciation charge – investment property (Note 30.1)	36,028	40,655
Total	**551,988**	**563,582**

19. OTHER INCOME

Other income are:

	Year ended 31 december 2018	2017
Income from reversal of unused provisions for litigations and other liabilities	134,110	25,426
Gains from the sale of equipment / real estate	-	6,923
Income from decrease of liabilities	40,650	67,143
Surpluses	-	3
Other income	105,469	654,309
Total	**280,229**	**753,804**

In the positions of other income in 2018, the most significant items are:

- On the basis of litigation finished in favour of the Bank or disputes temporarily ceased until finalization of related case in the amount of 134,110 thousand dinars
- On the grounds of reducing liabilities in the amount of 40,650 thousand dinars that are result of recognition of other immaterial commitment for inactive facilities, local currency and foreign currency accounts of natural persons who in the course of 2018 meet the requirements prescribed by decision of the Executive Committee. In the case of subsequent client requests for payments of the same obligations will be made at the expense of expenditures of the Bank
- From an insurance company for finance and compensation costs on the basis of a court settlement in the amount of 63,405 thousand dinars,
- Interest payments from previous years – from retail clients in total of 16,260 thousand dinars
- interest payments from previous years – from corpotate clients in total of 14,251 thousand dinars

20. OTHER EXPENSES (continued)

Other expenses include:

	(000) RSD Year ended 31 December 2018	2017
Cost of materials	334,632	367,932
Cost of production services	1,877,932	2,033,338
Non-material costs (without taxes and contributions)	2,432,612	2,475,068
Taxes payable	147,540	129,512
Contributions payable	740,120	751,661
Other operating costs	26,427	25,600
Other expenses	304,928	262,117
Losses arising from disposal and write-off of fixed assets and Intangible investments	12,405	-
Losses on the valuation of property and equipment, investment property and assets ment for sale (Note 30 and 31)	20,410	86,708
Provisions for litigations (Note 36)	270,971	173,187
Total	**6,167,977**	**6,305,123**

a) Other expenses

Within the position of other expenditures in the amount of RSD 304,928 thousand, among others are recorded:

- expenditures on the basis of provisions for litigation in the amount of 270,971 thousand dinars,
- expenditure arising from paying invoice insurance company life insurance policies for clients in favour of the Bank in the amount of 176,422 thousand dinars, and whose payment on its cargo took over the Bank. The specified policies are used as collateral for loans granted to individuals. Also, in this position are listed and expenditures on insurance policies for users of the sets of current accounts and travel insurance international payment cards in the amount of 64,889 thousand dinars and
- losses from depreciation and write-off of fixed assets and intangible assets in the amount of RSD 12,405 thousand

b) Provision for litigations

Expenditures on the basis of provisions for litigation totalling 270,971 thousand dinars (note 36) are result of increased expenditures for thirty-one new case during the year 2018, and increase expenditures for active cases from previous years.

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21. PROFIT AFTER TAX

21.1 Components of income taxes as of December 31 were as follows:

	(000) RSD Year ended 31 December 2018	2017
Deferred income tax benefits	700,754	1,335,828
Deferred income tax expenses	(676,645)	(405,710)
Total	**24,109**	**930,118**

In 2018. and 2017. year of the Bank's stated current income taxes based on the applicable tax regulations.

21.2 Reconciliation of the effective tax rate is presented in the table below:

In 000 RSD

	2018	2018	2017	2017
Profit for the year before taxes		**8,121,073**		**7,187,250**
Tax calculated using the local income tax rate	15%	1,218,161	15%	1,078,087
Expenses not recognized for tax purposes	1.05%	85,015	-0.41%	(29,449)
Tax effects of the net capital losses /gains	-0.01%	(621)	-0.01%	(562)
Tax effects of income reconciliation	-0.24%	(19,773)	0.03%	1,868
Tax effects on IFRS 9	-0.43%	(34,851)	-	-
Tax credit received and used in the current year	-7.80%	(632,773)	-5.13%	(368.666)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-7.57%	(615,158)	-9.48%	(681,278)
Tax effect adjustments (used and new ones)	-0.30%	(24,109)	-12.94%	(930,118)
Tax effects stated within the income statement		**24,109**		**930,118**

21.3 Movements in deferred taxes as at December 31 are presented as follows:

	(000) RSD Year ended 31 December 2018	2017
Balance as of January 1	857,096	(23,592)
Occurrence and reversal of temporary differences	(16,129)	880,688
Balance as of December 31	**840,967**	**857,096**

In the course of 2018. years, the Bank has not paid taxes on the profit, given that when tax on income for 2017 as not stated the obligation of paying taxes, for backing tax obligations transfer tax loss.

21. PROFIT AFTER TAX (continued)

21.4.1 Deferred tax assets and liabilities

Deferred tax assets and liabilities relate to:

(000) RSD

	2018			2017		
	Asset	Liability	Net	Asset	Liability	Net
Difference in net carrying amount of tangible assetsfor tax and financial reporting purposes	69,359	-	69,359	112,277	-	112,277
Transfer tax losses	878,000	-	878,000	867,146	-	867,146
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	4.885	(570,187)	(565,302)	624	(530,171)	(529,547)
Long-term provisions forretirement benefits	49,098	-	49,098	35,322	-	35,322
Impairment of assets	295,225	-	295,225	265,532	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	1,183	-	1,183	1,192	-	1,192
Accrued and unpaid public duties	13	-	13	-		-
Provisions for litigations	135,023	-	135,023	118,797	-	118,797
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	-	(21,632)	(21,632)	-	(13,623)	(13,623)
Total	**1,432,786**	**(591,819)**	**840,967**	**1,400,890**	**(543,794)**	**857,096**

Transfer tax losses that are not recorded in the books of the Bank and on the basis of which they formed the tax funds, and can be used to cover the taxes on profits in the coming period in total of 7,979,816 thousand dinars and relate partially to the tax loss from 2016.

Deferred tax assets have not been formed or the tax credits on the basis of investment in fixed assets in the amount of 15,692 thousand RSD nor on tax credits for intercompany dividends of 13,154 thousand RSD.

21.4.2 Overview of tax credits for which deferred tax assets were not recognized:

(000) RSD

Type of tax credit	Year	Amount as of 31.12.2018	Amount as of 31.12.2017	Expiration date for use
	2014	-	-	2019
	2015	-	2,533,717	2020
Tax losses carried forward	2016	7,979,816	9,719,742	2021
Total tax losses		**7,979,816**	**12,253,459**	
Total tax losses carried forward		1,196,972	1,838,019	2019 -2021
Impact of tax losses on future income tax (15%)	2013	15,692	15,692	2023
Tax credit on the basis of investment in fixed assets	2014	13,154	13,154	2019
Tax credit on the basis of intercompany dividends		**1,225,818**	**1,866,865**	

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21. PROFIT AFTER TAX (continued)

21.4.3 Movements in temporary difference during 2018 and 2017 are shown as follows:

(000) RSD

2018	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	112,277	(46,444)	3.526	-	69.359
Tax losses carried forward	867,146	10,854	-	-	878,000
Impairment of assets	(529,547)	-	(35,755)	-	(565,302)
Long term provisions for employee benefits	35,322	13,776	-	-	49,098
Actarial gains / (losses)	(13,623)	-	(8,009)	-	(21,632)
Impairment of assets	265,532	29,693	-	-	295,225
Assets based on the payment of other employee liabilities	1,192	(9)	-	-	1,183
Accrued and unpaid public duties	-	13	-		13
Provisions for legal disputes	118,797	16.226	-	-	135,023
Total	**857,096**	**24.109**	**(40,238)**	**-**	**840,967**

2017	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Tax losses carried forward	-	867,146	-	-	867,146
Impairment of assets	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Actarial gains / (losses)	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Assets based on the payment of other employee liabilities	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	**(23,592)**	**930,118**	**(49,431)**	**-**	**857,096**

21. PROFIT AFTER TAX (continued)

21.5 Tax effects relating to Other comprehensive income

(000) RSD

	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair adjustments of equity investments and securities available for sale	54,832	(8,224)	46,608	(241,847)	36,277	(205,570)
Net decrease due to actual losses	53.387	(8,008)	45,379	24,648	(23,517)	1,131
Valuation of property	-	3,526	3,526	-	(61,917)	(61,917)
Decrease due to fair value adjustments of equity investments and securities available for sale((decrease in equity and securities)	(28,403)	4,260	(24,143)	1,823	(274)	1,549
Total	**79,816**	**(8,446)**	**71,370**	**(215,376)**	**(49,431)**	**(264,807)**

22. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

(000) RSD

	31 December 2018	31 December 2017
In RSD		
Cash on hand	4,242,968	3,043,314
Gyro account	25,485,440	15,047,427
Other RSD cash funds	99	99
	29,728,507	**18,090,840**
In foreign currencies		
Cash on hand	2,956,171	3,875,812
Gyro account	30,910,922	27,874,051
Other cash funds	110	184
	33,867,203	**31,750,047**
Total	**63,595,710**	**49,840,887**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 25.1)	7,690,960	4,348,062
Foreign currency obligatory reserves	(30,910,922)	(27,874,051)
	(23,219,962)	**(23,525,989)**
Cash and cash equivalents reported in statement of cash flows	**40,375,748**	**26,314,898**

22. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK (continued)

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00% depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00%of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.25%annually. (rates in application since may 2018.)

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015. (Official Gazzete 102/2015), the ratesapplied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20%was applied
- for foreign currency deposits placed for over 730 days the rate of 13%was applied
- for RSD deposits indexed with currency clause the rate of 100%was applied.

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the country of the currency.

Other foreign currency cash in the amount of RSD 110 thousand (2017: RSD 184 thousand) relate to account calculations with the Central Registry of securities for Trade with securities.

23. RECEIVABLES UNDER DERIVATIVES

		(000) RSD
	31 December 2018	**31 December 2017**
Claims arising from changes in fair value of derivatives in dinars-SWAP	4,070	-
Total	**4,070**	**-**

24. SECURITIES

24.1. Securities shall consist of:

	31 December 2018	(000) RSD 31. December 2017
Securities measured at fair value through income statement (in RSD)	1,653,198	2,029,354
Securities measured at fair value through income statement in foreign currency	3,156,612	3,240,355
Total	**4,809,810**	**5,269,709**
Securities measured at fair value through other comprehensive income (in RSD)	52,167,965	33,470,304
Securities measured at fair value through other comprehensive income in foreign currency	76,201,417	78,548,757
Impairment	(1,594)	(3)
Total	**128,367,788**	**112,019,058**
Total	**133,177,598**	**117,288,767**

24.2. Breakdown of financial assets held for trading is provided below:

	31 December 2018	(000) RSD 31 December 2017
Republic of Serbia bonds (in RSD)	1,193,611	1,611,711
Investment units of OIF monetary fund (in RSD)	459,587	417,643
Republic of Serbia bonds (in foreign currencies)	3,156,612	3,240,355
Total	**4,809,810**	**5,269,709**

Investment units as at December 31, 2018 in the total amount of RSD 459,587 thousand refer to investment units KomBank Monetary Fund, Belgrade.

24. SECURITIES (continued)

24.3. The structure of the securities that are valued at fair value through other comprehensive income:

	31 December 2018	31 December 2017
	(000) RSD	
In RSD		
Republic of Serbia bonds	51,916,780	33,137,523
Bonds of local government (city of Pančevo and municipality of Stara Pazova)	251,185	332,781
Total RSD	**52,167,965**	**33,470,304**
In foreign currencies		
Republic of Serbia bonds	73,841,988	76,766,427
Bonds of foreign banks (Raiffeisen Bank International)	1,702,199	1,782,330
Bonds of foreign States (Republika Srpska)	657,230	
Total in foreign currencie	76,201,417	78,548,757
Total	**128,369,382**	**112,019,061**

Impairment allowance of securities that **are valued at fair value through other comprehensive income:**

	31 December 2018	31 December 2017
		(000) RSD
Individual impairment allowance		
Balance at January 1	3	81,710
Correction of the opening balance:		
IFRS 9 – correction results in capital	1,828	-
Adjusted balance as of 1 January 2018	**1,831**	**-**
Change for the year (Note 13)	586	29,813
Effects of the changes in foreign exchange rates (Note 13)	(5)	(3,523)
Reversal (Note 13)	(818)	(27,211)
Permanent write-off	-	(80,786)
Total individual impairment allowance	**1,594**	**3**

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24. SECURITIES (continued)

Impairment allowance of securities that are valued at amortised cost:

	31 December 2018	(000) RSD 31 December 2017
Individual impairment allowance		
Balance at January 1	-	84,169
Current year impairment allowance:		
IFRS 9 – correction of results through equity		
Adjusted balance as of 1 January 2018 year	-	
Change for the year	-	-
Effects of the changes in foreign exchange rates	-	-
Reversal	-	-
Permanent write-off	-	(84,169)
Total Individual and Collective Allowance	**-**	**-**

25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

25.1 Loans and receivables due from banks include:

	31 December 2018	(000) RSD 31 December 2017
RSD loans and receivables		
Per repo transactions	1,500,000	15,000,000
Loans for working capital	1,000,000	200,000
Overnight loans	1,260,000	-
Other receivables	15,993	68,549
Prepayments	14,744	18,809
Allowance	(1,127)	-
	3,789,610	**15,287,358**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 22)	7,690,960	4,348,062
Overnight loans	1,587,977	2,144,357
Other loans and receivables due from foreign banks	751,504	665,877
Foreign currency deposits placed with other banks	3,774,544	5,905,905
Prepayments	1,394	2,114
Other receivables	9,684	12,657
Loans to foreign banks (subsidiaries)	101,309	490,815
Secured foreign currency warranties	997,656	889,202
Impairment allowance	(226,909)	(202,558)
	14,688,119	**14,256,431**
Total	**18,477,729**	**29,543,789**

25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

As at 31 December 2018, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 1,500,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 2.31%to 2.59%

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.9 %to 3.5%per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.05%to 0.20%per annum for the EUR, from 1.2%to 2.5%for USD and 0.13%to CHF.

Interest rates on long-term loans extended revolving foreign dependent banks ranged in scope from 4,089%to 4.09%which is a 1 m EURIBOR plus a fixed share of 4.46% Long-term loans are dependent on banks at the rate of 2.479 percent to 2.484%or 6M EURIBOR plus a fixed portion of 2.75%

25.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

(000) RSD

	31 December 2018	31 December 2017
Individual impairment allowance		
Balance at January 1	202,558	309,874
IFRS 9 – correction of results through equity	25,260	-
Adjusted balance as of 1 January 2018	**227,818**	**-**
Update the values in the current year:		
Change for the year (Note 13)	66,805	-
Effects of the changes in foreign exchange rates (Note 13)	9,171	(46,755)
Permanent write-off	-	-
Reversal (Note 13)	(76,584)	(60,561)
Other	827	-
Balance at 31 December	**228,037**	**202,558**

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26. LOANS AND RECEIVABLES DUE FROM CLIENTS

26.1 Loans and receivables due from customers:

(000) RSD

	2018			2017		
	Gross Amount	**Impairment Allowance**	**Carrying Amount**	**Gross Amount**	**Impairment Allowance**	**Carrying Amount**
Corporate customers						
Transaction account overdrafts	752,971	(20,901)	732,070	545,794	(15,523)	530,271
Working capital loans	33,354,044	(4,395,390)	28,958,654	36,079,514	(6,876,228)	29,203,286
Export loans	-	-	-	59,381	-	59,381
Investment loans	32,805,889	(1,269,586)	31,536,303	26,874,796	(2,257,470)	24,617,326
Loans for payments of imported goods and services	2,072,507	(18,613)	2,053,894	2,109,314	(18,892)	2,090,422
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	386,037	(289,188)	96,849	416,502	(261,893)	154,609
Other loans and receivables	36,744,167	(6,894,653)	29,849,514	37,994,559	(7,093,888)	30,900,671
Prepayments	106,661	(19,262)	87,399	138,848	(24,290)	114,558
Accruals	(151,278)	-	(151,278)	(139,210)	-	(139,210)
	106,070,998	**(12,907,593)**	**93,163,405**	**104,079,498**	**(16,548,184)**	**87,531,314**
Retail customers						
Transaction account overdrafts	3,564,677	(173,254)	3,391,423	3,795,909	(422,347)	3,373,562
Housing loans	39,641,860	(742,907)	38,898,953	37,546,956	(586,966)	36,959,990
Cash loans	30,684,586	(247,009)	30,437,577	24,712,127	(389,565)	24,322,562
Consumer loans	131,729	(1,069)	130,660	126,019	(2,712)	123,307
Other loans and receivables	1,915,763	(74,749)	1,841,014	2,014,181	(81,801)	1,932,380
Prepayments	249,874	(2,726)	247,148	218,284	(3,024)	215,260
Accruals	(564,506)	-	(564,506	(561,008)	-	(561,008)
	75,623,983	**(1,241,714)**	**74,382,269**	**67,852,468**	**(1,486,415)**	**66,366,053**
Balance as of December 31	**181,694,981**	**(14,149,307)**	**167,545,674**	**171,931,966**	**(18,034,599)**	**153,897,367**

26. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

26.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

	31 December 2018	31 December 2017
Individual impairment allowance		
Balance at January 1	17,031,882	28,219,164
Impairment in the current year		
IFRS 9 – correction of result through equity	109,895	-
Adjusted balance as of 1 January 2018	**17,141,777**	**-**
Change for the year (Note 13)	1,672,859	6,427,100
Reclassification from Group impairment allowance	346,947	194,318
Effects of the changes in foreign exchange rates (Note 13)	(6,146)	(381,063)
Reversal (Note 13)	(1,773,670)	(5,617,811)
Permanent write-off	(4,518,125)	(11,811,840)
Other(Note 13)	1,736	2,014
Individual impairment allowance	**12,865,378**	**17,031,882**
Group impairment allowance		
Balance at January 1	1,002,717	1,425,841
Impairment in the current year		
IFRS 9 – correction of result through equity	642,157	-
Adjusted balance as of 1 January 2018	**1,644,874**	**-**
Change for the year (Note 13)	3,759,011	4,165,517
Reclassification from Individual impairment allowance	(346,947)	(194,318)
Effects of the changes in foreign exchange rates (Note 13)	(5,591)	(391,172)
Permanent write-off	(3,345,664)	(4,505,417)
Reversal (Note 13)	(606,661)	(277,229)
Other	184,907	779,495
Total Group impairment allowance	**1,283,929**	**1,002,717**
Balance as of December 31	**14,149,307**	**18,034,599**

Loans and receivables due from retail customers

During 2018, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 1.80%to 14.50%per annum.
Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.50%to 9.60%annually.
Long-term loans to retail customers in foreign currency are approved for the period from thirteen to thirty-sixteen months with nominal interest rates ranging from 1.50%to 9.95%annually.

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.35%to 10.20%annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.30%to 6.00% annually.

26. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Long-term loans in RSD were approved for a period from thirteen months to thirty months with an interest rate from 2.25%to 5.50%per annum. Long-term loans in foreign currency are approved for a period up to hundred and forty months with an interest rate of EUR from 1.05%to 4.95%per annum.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

27. INVESTMENTS TO SUBSIDIARIES

	December 31, 2018	December 31, 2017
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Podgorica	2,366,273	2,366,273
Impairment allowance	(2,869,029)	(2,869,029)
Total	**2,611,859**	**2,611,859**

Effects of conducted appraisals of investments in subsidiaries

Permanent sateks in subsidiaries - banks were impaired in 2016 in the amount of RSD 2,869,029 thousand, in accordance with the requirements of IAS 36, based on an estimate of their fair value by an independent appraiser. Impairment was recognized at the expense of the Bank's expense.

Investments in the permanent stakes of subsidiary banks have been subject to impairment testing at the end of 2018, as IAS 36 requires a new estimate of fair value only where there is evidence that the value of the asset can be further reduced (or that the previously recognized impairment has been significantly reduced) .Based on the conducted testing and the achieved movement of the balance sheet positions of the subsidiary banks in 2018, and taking into account the development plans of the banks, the Bank's conclusion is that there's no noticeable and clear indications of potential further impairment of these investments, but also there's no significant reduction in previously recognized impairment.

28. INTANGIBLE ASSETS

28.1 Intangible assets comprise:

(000) RSD

	December 31, 2018	December 31, 2017
Intangible assets	384,273	340,660
Intangible assets in progress	172,778	119,603
Total	**557,051**	**460,263**

28.2 Movements on the account of intangible assets in 2018 and 2017 are presented below:

(000) RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2017	1,967,554	1,065	1,968,619
Additions	-	240,937	240,937
Transfers	122,399	(122,399)	-
Balance as of December 31, 2017	**2,089,953**	**119,603**	**2,209,556**
Balance as of January 1, 2018	2,089,953	119,603	2,209,556
Additions	-	235,976	235,976
Transfers	182,801	(182,801)	-
Disposals	(4,948)	-	(4,948)
Balance as of December 31, 2018	**2,267,806**	**172,778**	**2,440,584**
Impairment			
Balance as of January 1, 2017	1,606,112	-	1,606,112
Depreciation(Note 18)	143,181	-	143,181
Balance as of December 31, 2017	**1,749,293**	**-**	**1,749,293**
Balance as of January 1, 2018	1,749,293	-	1,749,293
Depreciation(Note 18)	139,188	-	139,188
Disposals	(4,948)	-	(4,948)
Balance as of December 31, 2018	**1,883,533**	**-**	**1,883,533**
Current value			
Balance as of December 31, 2017	**340,660**	**119,603**	**460,263**
Balance as of December 31, 2018	384,273	**172,778**	**557,051**

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29. PROPERTY, PLANT AND EQUIPMENT

29.1 Property, plant and equipment comprise:

(000) RSD

	December 31, 2018	December 31, 2017
Property	4,898,896	4,950,836
Equipment	520,557	571,847
Investments in progress	199,625	132,565
Total	**5,619,078**	**5,655,248**

29.2 Movements on the account of property and equipment in 2018 and 2017 are presented below:

(000) RSD

	Property	Equipment	Investment in progress	Total
Cost				
Balance as of January 1, 2017	**7,058,048**	**3,366,895**	**48,839**	**10,473,782**
Additions	-	-	330,305	330,305
Transfer from investments in progress	57,924	192,884	(246,579)	4,229
Transfors to assets held for sales	(176,051)	-	-	(176,051)
Transfer from equipment	787	(787)	-	-
Disposals	(64,989)	(71,457)	-	(136,446)
Sales	-	(13,671)	-	(13,671)
Balance as of December 31, 2017	**6,875,719**	**3,473,864**	**132,565**	**10,482,148**
Balance as of January 1, 2018	**6,875,719**	**3,473,864**	**132,565**	**10,482,148**
Additions	-	-	304,152	304,152
Transfer from investments in progress	67,899	169,193	(237,092)	-
Transfer from investment PPE	49,341	-	-	49,341
Disposals	(42,228)	(123,758)		(165,986)
Appraisal (revaluation) – decrease		(23,058)	-	(23,058)
Balance as of December 31, 2018	**6,950,731**	**3,496,241**	**199,625**	**10,646,597**
Impairment				
Balance as of January 1, 2017	**1,836,794**	**2,780,530**	**-**	**4,617,324**
Depreciation(Note 18)	173,892	205,854		379,746
Transfors to assets held for sales	(25,486)	-	-	(25,486)
	(60,317)	(70,720)	-	(131,037)
Sales		(13,647)		(13,647)
Balance as of December 31, 2017	**1,924,883**	**2,902,017**	**-**	**4,826,900**
Balance as of January 1, 2018	**1,924,883**	**2,902,017**	**-**	**4,826,900**
Depreciation(Note 18)	159,206	217,566	-	376,772
Disposals	(32,254)	(121,327)	-	(153,581)
Appraisal (revaluation) – decrease	-	(22,572)		(22,572)
Balance as of December 31, 2018	**2,051,835**	**2,975,684**	**-**	**5,027,519**
Carrying value				
Balance as of December 31, 2017	**4,950,836**	**571,847**	**132,565**	**5,655,248**
Balance as of December 31, 2018	**4,898,896**	**520,557**	**199,625**	**5,619,078**

29. PROPERTY, PLANT AND EQUIPMENT (continued)

The Bank does not have mortgaged buildings to secure repayment of the loans.

Due to incomplete cadastral books, on 31 December 2018, for 29 cobjects with the present value of RSD 465,649 thousand the Bank still does not have evidence of ownership (the number of facilities includes assets acquired through collection of receivables). The Bank's management takes all necessary measures for the acquisition of ownership papers. Completion of this process depends on the conduct of the competent national authorities.

The Bank has carried out write-off of fixed assets with carrying value of 12,891 thousand RSD during the year, on the basis of disposal of leasehold improvements of 10,040 thousand RSD, while based on the annual inventory count has been disposed unusable fixed assets with carrying value amounting to 2,364 thousand dinars and shortage of 487 thousand dinars.

30.1 Changes in investment in real estate during the 2018 and 2017 are presented in the following table:

	(000) RSD Total
Cost	
Balance as of January 1, 2017	2,448,984
Transfer from investments in progress	-
Transfer to PPE	-
Sales	(117,034)
Assessment – reduction	(79,477)
Balance as of December 31, 2017	**2,252,473**
Balance as of January 1, 2018	**2,252,473**
Sales	
Transfer to PPE	(49,341)
Assessment – reduction	(7,700)
Balance as of December 31, 2018	**2,195,432**
Impairment	
Balance as of January 1, 2017	231,168
Depreciation(Note 18)	40,655
Transfer to PPE	-
Sales	(4,438)
Assessment – reduction	(3,520)
Balance as of December 31, 2017	**263,865**
Balance as of January 1, 2018	263,865
Depreciation(Note 18)	36,028
Sales	
Assessment – reduction	(808)
Balance as of December 31, 2018	**299,085**
Net Book Value	
Balance as of December 31, 2017	**1,988,608**
Balance as of December 31, 2018	**1,896,347**

As of 31 December 2018 the Bank has reported investment properties eith the net book value of 1,896,347 thousand dinars, which comprise lease properities.

During 2018, based on the external appraisals by authorized valuers the Bank recorded reduction of values of investment properties amounting to 6,892 thousands dinars on account of imapirment lossesenja (part of Note 20). The Banks has changed purpose of two properties in Novi Sad and they are now properties used for business purposes. As of 31 December 2018, the net result on the basis of investment property is negative and amounts to RSD 2,618 thousand.

30. INVESTMENT PROPERTY (continued)

Property	Area in м^2	Total expenses	Realized rental income	Difference in 000 RSD
Beograd, Trg Politike 1	3,354	(23,710)	9,239	(14,471)
Nis, Vrtiste nova d-zgrada	1,816	(4,313)	-	(4,313)
Nis, TPC Kalča	85	(799)	4,974	4,175
Beograd, Omladinskih brigada 9	15,218	(19,655)	16,487	(3,168)
Sabac, Majur, Obilazni put bb	1,263	(1,742)	-	(1,742)
Lovcenac, Marsala Tita bb	46,971	(2,696)	7,096	4,400
Negotin, Save Dragovica 20-22	658	(583)	-	(583)
Nis, Bulevar 12 Februar bb	816	(380)	4,541	4,161
Beograd, Radnička 22	7,190	(18,189)	18,717	528
Novi Sad, Vardarska 1/B,	291	(1,895)	3,608	1,713
Novi Sad, Bulevar Oslobodjenja 88, 3 lokala	367	(526)	2,316	1,790
Kotor, Stari Grad, Palata beskuca, business office, Br.1	207	(1,007)	5,647	4,640
Beograd, Luke Vojvodica 77a	80	(604)	856	252
		(76,099)	**73,481**	**(2,618)**

31. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(000) RSD

	December 31, 2018	December 31, 2017
Non-current assets held for sale and assets from discontinued operations	227,630	241,148
	227,630	241,148

Non-current assets held for sale:

(000) RSD

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	538
Pozarevac, Mose Pijade 2, business office	826.82	27,926
Pozarevac, Mose Pijade 2, business office	880.86	23,107
Vrbas, M. Tita 49, business space	145.56	2,128
Kotor, business space 1 and 2	690.00	91,582
Jastrebac, resort building	687.00	19,388
Jastebac, country house	108.00	1,301
Jastrebac, generator storage	65.00	310
Beograd, Palmira Toljatija 5	637.00	61,350
Total		**227,630**

During 2018, based on the assessments of an authorized external appraisers, a decrease in the value of non-current assets held for sale amounted to RSD 13,518 thousand.

The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

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32. OTHER ASSETS

Other assets comprise:

	December 31, 2018	(000) RSD December 31, 2017
In RSD		
Fee receivables per other assets	106,138	101,231
Inventories	135,901	146,424
Assets acquired in lieu of debt collection	2,268,696	2,299,238
Prepaid expenses	141,291	120,433
Equity investments	1,747,050	1,571,785
Other RSD receivables	3,219,110	3,001,673
	7,618,186	**7,240,784**
Impairment allowance of:		
Fee receivables per other assets	(68,497)	(44,251)
Assets acquired in lieu of debt collection	(949,729)	(860,172)
Equity investments	(446,661)	(504,732)
Other RSD receivables	(850,384)	(935,438)
	(2,315,271)	**(2,344,593)**
In foreign currencies		
Fee receivables per other assets	807	2,104
Other receivables from operations	913,961	729,569
Receivables in settlement	381,106	1,354,121
Other foreign currency receivables	189,655	21,045
	1,485,529	**2,106,839**
Impairment allowance of		
Other receivables from operations	(98,373)	(126,602)
Receivables in settlement	(77,804)	(77,922)
	(176,177)	**(204,524)**
Total	**6,612,267**	**6,798,506**

Throughout regular yearly inventory count, inventories worth 22 thousand dinars have been written off.

32. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

In RSD thousand

	31 December 2018	31 December 2017
Individual impairment allowance		
Balance at January 1	212,592	204,558
Update the values in the current year:		
IFRS 9 – correction of result through equity	13,637	-
Adjusted balance as of 1 January 2018	**226,229**	**-**
Change for the year (Note 13)	10,584	33,502
Effects of the changes in foreign exchange rates (Note 13)	-	(1,056)
Reversal(Note 13)	10,980	(7,547)
Permanent write-off	(4,226)	(16,865)
Individual impairment allowance	**243,567**	**212,592**
Group impairment allowance	2,244,271	2,328,130
Balance at January 1		
IFRS 9 – correction of result through equity	(443,121)	-
Adjusted balance as of 1 January 2018	**1,801,150**	**-**
Change for the year (Note 13)	216,744	451,058
Effects of the changes in foreign exchange rates (Note 13)	117	(9,670)
Reversal (Note 13)	(301,700)	(121,869)
Permanent write-off	-	(2,233)
Other(Note 13)	(7,771)	(401,145)
Total Group impairment allowance	**1,708,540**	**2,244,271**
Balance as of December 31	**1,952,107**	**2,456,863**
Inventory impairment allowance (not exposed to credit risk)	**92,680**	**92,254**
Balance as of December 31	**2,044,787**	**2,549,117**

32. OTHER ASSETS (continued)

a) Equity investments

Other assets also comprise equity investments and are shown in the following table:

In RSD thousand

Equity investments	2018	2017
Equity investments in banks and other financial organizations	80,270	80,270
Equity investments in companies and other legal entities	410,760	464,902
Equity investments in non-resident entities abroad	1,256,020	1,026,613
	1,747,050	**1,571,785**
Impairment allowance of:		
Equity investments in banks and other financial organizations	(80,270)	(80,270)
Equity investments in companies and other legal entities	(366,391)	(424,462)
	(446,661)	**(504,732)**

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly pertain to: 14. October a.d., Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Belgrade Stock Exchange in the amount of RSD 2,246 thousand, Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 32,759 thousand and Politika a.d., Beograd in the amount of RSD 1,899 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 1,020,797 thousand and MASTER Card in the amount of RSD 235,223 thousand.

Impairment allowance of equity investments totaling RSD 446,661 thousand refers to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of 324.874 thousand dinars, Euroaxis bank Moscow worth 78.387 thousand dinars, RTV Politika Belgrade driver, to the tune of thousands of dinars 37.633, Politika a.d. and Dobricevo PPD driver Bridge amounting to 2.563 thousand dinars.

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling RSD 709,270 thousand, operating receivables of RSD 250,989 thousand, receivables which relate to material values acquired in lieu of debt collection of RSD 2,268,696thousand (written off in the amount of RSD 949,729 thousand), advances paid for working capital assets of RSD 28,391 thousand, rental receivables of RSD 368,981 thousand and interest receivables per other assets of RSD 204,498 thousand and receivables from operations per court verdict totaling RSD 209,085 thousand (written off in total, 100%).

Other receivables from operations in foreign currencies totaling RSD 381,106 thousand for the most part pertain to receivables for spot transactions of RSD 227,052 thousand.

32. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets totaling to RSD 2,268,696 thousand gross, less recorded impairment allowance of RSD 949,729 thousand, with the net carrying value of RSD 1,318,967 thousand relate to:

I Properties foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	Area in m^2	Value	Date of acquisition
Novi Pazar, Kej Skopskih zrtava,44 local	82.95	2,128	27.09.2006.
Gnjilica, field VII class	2,638	56	15.04.2008.
Cacak, Hotel "Prezident", Bulevar oslobodjenja bb	2,278.92	98,456	21.01.2009.
Tivat, Mrčevac-apartment building, auxiliary building	277	4,834	23.12.2009.
Budva, Montenegro, forest, IV class	8,292	88	12.10.2010.
Buce, forest, IV class	974	3,875	27.05.2011.
Prijevor, forest IV class	1,995	4,559	27.05.2011.
Belgrade, 14 Miajla Avramovic, building	925.35	164,228	21.11.2011.
Krusevac, Kosevi, production and office building I.C.P.	12,836	45,433	08.06.2012.
Mladenovac, Sopot-Nemenikuce, field III class	16,633	258	25.06.2012.
Obrenovac, Mislođin, field III class	10,017	1,016	11.07.2012.
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,547	24.07.2012.
Majur, Tabanovačka, field	14,452	1,575	10.08.2012.
Mali Požarevac, large field, field III and IV classes	21,915	309	27.09.2012.
Cuprija, Aleksa Santic 2/24, apartment	72.40	811	15.01.2013.
NIS, Ivana Milutinovica 30, business office	438.39	4,924	23.04.2013.
NIS, Triglavska 3/1, flat	79.80	3,165	04.06.2013.
Mladenovac, field-lug III class	1,142	405	18.07.2013.
NIS, Bulevar 12. februar, outhouse-storage	2,062	39,112	30.07.2013.
Kula,Zeleznicka bb,business office,land	7,959	21,990	01.10.2013.
Prijepolje, Karosevina, sawmill	450	839	08.11.2013.
Total I		**401,608**	

32. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Properties foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	*Area in m²*	*Value*	*Date of acquisition*
Vukovac,, Milatovac, agricultural land	132,450	552	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	46,813	08.05.2014.
Subotica, Magnetic fields, 17, production hall and warehouse	2,492	44,612	18.07.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,985	31.01.2014.
Kopaonik, House with land	337	3,936	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 6/3	29	2,970	31.01.2014.
Novi Sad, Bulevar oslobođenja 30 and commercial property 7/3	44	4,506	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 8/3	35	3,584	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 9/3	34	3,482	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 10/3	39	3,994	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/22	226	16,430	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	19,463	31.01.2014.
Novi Sad, Tihomira Ostojic, 4, Office 7	134	5,530	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 8	81	4,769	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 9	79	4,651	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office space 10	408	24,703	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	33,601	14.08.2014.
Budva, Reževici, Montenegro, rocks, forest	1,363.20	19,469	22.07.2014.
Budva, Reževici, Montenegro, forest V class	5,638.54	79,502	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	4,360	17.04.2013.
Mladenovac, Americ, field IV class	7,768	245	03.10.2014.
Valjevo, Rađevo selo, warehouse	394	423	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	68	03.10.2014.
Mladenovac, fields, orchards	25,136	519	03.10.2014.
Valjevo, Vojvode Misica 17, family building	106	1,651	25.09.2014.
NIS, Čajnička bb, residential buildings with additional building	825.74	10,369	14.03.2013.
NIS, Sjenička 1, commercial buildings, warehouses, workshops	1,452.73	12,767	14.03.2013.
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	96,957	16.06.2014.
NIS, Sumadijska 1, Office space	504.60	1,746	04.12.2014.
Valjevo, Worker 6, place	69	2,684	28.05.2014.
Prokuplje, field III class	12,347	554	28.08.2015.
Mionica, Prote Zarko Tomovica bb, House	107	1,678	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	270	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	5,312	31.07.2012.
Sokobanja, production hall with land	5,042	22,825	31.07.2012.
Sokobanja, space with land	2,005	656	31.07.2012.
Sokobanja, House with land	4,194	3,547	31.07.2012.
Belgrade, Pivljanina 83, residential buildings	278.52	58,577	23.08.2012.
Divčibare, meadows V class	8,012	4,114	02.12.2015.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	5,507	27.08.2015.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	1,997	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,283	16.05.2013.
Krusevac, century village, a concrete base with land	100,560	131,163	11.03.2016.
Zrenjanin, Bagljas, pasture II class	230	48	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	29,667	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	14,135	23.12.2015.
Cacak, Suvo polje, buildings 1 and 2 with land	1,225	11,564	05.05.2016.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	224	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	307	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	20,622	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Total II		*895,111*	

32. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	6,799	08.06.2012.
Nis i Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	6,101	31.07.2012.
Paracin, lines for production for coffee	2,512	31.12.2012.
Vranic, lines for production	4,318	09.07.2013.
Total III	**19,730**	

IV Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balancing assets and non balancing items for which the Bank sets aside reserves from profit

(000) RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	59	03.06.2015.
Equipment supplies raw materials	1,523	18.07.2014.
Motor vehicle, installation material	672	13.05.2014.
Other	264	
Total IV	**2,518**	
Total(current value) I + II+ III+ IV	**1,318,967**	

The effect of the impairment of assets acquired through collecting receivables in 2018 is shown in the table:

(000) RSD

Effects of property impairment	83,099
Effects of equipment impairment	13,439
TOTAL	**96,538**

Total negative effect amounted to RSD 96,538 thousand and it was recognized as expense of a period as follows (note 13):

- For properties RSD 57,525 thousand based on lower appraisal market value and RSD 26,151 thousand according to internal act due to Bank's inability to sell the property in the period shorter than 12 months, even though the appraisal value is higher than book value;
- For equipment RSD 13,439 thousand according to internal act.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

32. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G1.1 Appraisal value of foreclosed properties

In 000 RSD

Property	Area in м^2	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14a,building	925.35	184,285	1,559	164,228	(20,057)
Krusevac, St. selo, a concrete base with land	100,560	136,062	1,151	131,163	(4,899)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	100,608	851	98,456	(2,152)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	100,578	851	96,957	(3,621)
Budva, Reževici, Montenegro, forest V class	5,638.54	81,042	686	79,502	(1,540)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	69,626	589	60,860	(8,766)
Kotor, Montenegro, Office space, building No. 1 PD6	345	69,626	589	60,860	(8,766)
Belgrade, Pivljanina 83, Office building	278.52	60,764	514	58,577	(2,187)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	54,292	459	46,813	(7,479)
Subotica,Magnetna polja 17, **production hall and warehouse**	2,492	46,278	392	44,612	(1,666)
Krusevac, Kosevi bb, **production and office building I.C.P.**	12,836	45,475	385	45,433	(42)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	40,573	343	39,112	(1,461)
Sokobanja, link, port, with land, Orchard, House, field IV kl.	429,149	38,957	330	32,340	(6,617)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, **pasture**	9,374	34,904	295	33,649	(1,255)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	32,672	276	29,667	(3,005)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	24,857	210	24,703	(154)
Kula, Zeleznicka bb, commercial property, land	7,959	22,811	193	21,990	(821)
Kotor, Montenegro, Office space, building No. 1 PD2	106	21,393	181	20,622	(771)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	20,189	171	19,463	(726)
Budva,Rezevici, Montenegro,forest	1,363.20	19,846	168	19,469	(377)
Novi Sad, Bulevar oslobodjenja 88 , **business space** 22	226	17,044	144	16,430	(614)
Aleksandrovo, Merosina, **administration building with land**	8,527	14,663	124	14,135	(528)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	13,244	112	12,767	(477)
Cacak, Suvo polje,building 1 и 2 with land	1,225	11,996	101	11,564	(432)
Nis, Cajnicka BB, building	825.74	10,756	91	10,369	(387)
Novi Sad, Tihomira Ostojica 4, business office 7	134	5,736	49	5,530	(206)
Lebane, Branka Radičevica 17, residential and commercial building	768.42	5,714	48	5,507	(207)
NIS, Ivana Milutinovica 30, business space	438.39	5,107	43	4,924	(183)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,922	42	4,769	(153)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,801	41	4,651	(150)
Novi Sad, Bulevar Oslobodjenja 30a, **business space** (5 local)	181	19,227	163	18,536	(691)
Prijevor, forest 4 class	1,995	4,647	39	4,559	(88)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,523	38	4,360	(163)
Divcibare, meadows V class	8,012	4,193	35	4,114	(79)
Mokra Gora, houses and meadows	58,400	4,134	35	3,985	(149)
Kopaonik, House with land	337	4,083	35	3,936	(147)
Budva, forest IV class	974	3,950	33	3,875	(75)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,648	31	3,547	(101)
Other (27 properties)	-	32,201	272	30,294	(1,907)
Total		**1,379,427**		**1,296,328**	**(83,099)**

G1.2 Appraisal value of foreclosed properties

In 000 RSD

Description	Book value before the appraisal	Net current value in RSD	Difference in value
Movable assets	21,262	13,618	(7,644)
Equipment, supplies, secundary raw material	6,303	1,846	(4,457)
Other	8,169	6,831	(1,338)
Total	**35,734**	**22,295**	**(13,439)**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

32. OTHER ASSETS (continued)

G1.2 Appraisal value of foreclosed (continued)

For three movable objects worth in total RSD 96 thousand Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

33. LIABILITIES UNDER DERIVATIVES

	December 31, 2018	In 000 RSD December 31, 2017
Liabilities based on changes in fair value-SWAP	-	7,845
Total	-	7,845

34. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

	December 31, 2018	(000) RSD December 31, 2017
Demand deposits	2,985,493	2,171,044
Term deposits	1,951,518	231,664
Borrowings	709,168	2,132,509
Expenses deferred at the effective interest rate (deductible item)	(2,990)	(19,733)
Other	19,559	17,021
Balance as at December 31	**5,662,748**	**4,532,505**

During 2018 term deposits were 2.10% to 2.55% for RSD and foreign currency term deposits placed by banks were deposited at interest rate of 0.05% to 0.15% for CHF and 0.05% to 0.10% for EUR.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

Breakdown of long-term borrowings included in aforementioned line “Borrowings” is shown as follows:

	December 31, 2018	(000) RSD December 31, 2017
EBRD	709,168	2,132,509
Balance at December 31	**709,168**	**2,132,509**

During 2018, the Bank has repayed a line of credit due to EBRD of EUR 12,000 thousand which resulted in a decrease in the balance at the end of the year compared to 2017 in the amount of RSD 1,423,341 thousand.

35. DEPOSITS AND OTHER LIABILITIES DUE TO CLIENTS

Deposits and other liabilities due to customers comprise:

	December 31, 2018	(000) RSD December 31, 2017
Corporate customers		
Demand deposits	64,150,115	55,021,237
Overnight and other deposits	10,561,044	7,060,604
Borrowings	2,111,822	5,279,478
Earmarked deposits	2,085,383	1,567,511
Deposits for loans approved	610,368	610,238
Interest payable, accrued interest liabilities and other financial liabilities	470,598	434,975
Retail customers		
Demand deposits	29,277,626	23,963,864
Savings deposits	200,064,602	191,350,273
Earmarked deposits	4,605,537	4,131,493
Deposits for loans approved	2,322,718	2,073,679
Interest payable, accrued interest liabilities and other financial liabilities	834,097	868,612
Other deposits	135,174	109,676
Balance at December 31	**317,229,084**	**292,471,640**

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2018, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10%per annum if average monthly balance is higher than RSD 50 thousand.

Foreign currency demand deposits of non-resident customers are non-interest bearing, except for specific business arrangements.

In 2017 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between: the key policy rate less 2.50 percentage points for deposits placed from 3 to 14 days to key policy rate less 1.00 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited. Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 2.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.0%and 0.40%annually for EUR deposits and from 0.00%to 1.00%for USD.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased from 0.5 to 0.20 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50%to 0.70% for EUR and from 1.30%to 1.40%annually for USD.

35. DEPOSITS AND OTHER LIABILITIES DUE TO CLIENTS (continued)

Retail Customer Deposits

Demand RSD and foreign currency savings deposits of retail customers during 2018 were interest-free.

In 2018 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 1.50% to 3.50 % annually and those in foreign currencies at rates from 0.05% to 0.35% annually for EUR and from 0.10%to 1.00%annually for other currencies.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 3.75%to 4.00%annually and those in foreign currencies at rates from 0.65%to 0.80%annually for EUR and from 1.00%to 1.50%annually for other currencies.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities which, for the purpose of compiling the balance sheet, are regarded as customers.

Breakdown of long-term and short-term borrowings included within the line item of deposits and other liabilities due to customers is presented below:

		(000) RSD
	December 31, 2018	December 31, 2017
Long term borrowings		
LEDIB 1 and 2 (Kingdom of Denmark)	-	3,982
Republic of Italy Government	103,104	249,272
European Investment Bank (EIB)	1,955,882	3,635,120
European Agency for Reconstruction (EAR)	52,836	98,674
Short term borrowings		
KfW	-	1,292,430
Balance at December 31	**2,111,822**	**5,279,478**

The above presented long-term and short-term borrowings mature in the period from 2019 to 2030.

The loan facility agreements executed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

In the course of 2018, the Bank has made early repayment of credit lines on the basis of the contract concluded with the German Development Bank (KfW) as well as regular repayment of credit line LEDIB 1 and 2 which are an obligation repayments as a whole.

The Bank also performed early repayment of part of credit line the European Investment Bank (EIB) in the amount of 7,065 thousand EUROS and credit lines of the Government of the Republic of Italy in the amount of EUR 333 thousand.

36. PROVISIONS

Provisions relate to:

	December 31, 2018	(000) RSD December 31, 2017
Provisions for off-balance sheet items (Note 13)	274,954	124,392
Provisions for litigations (Note 39.4)	900,152	791,982
Provisions for employee benefits in accordance with IAS 19	478,557	451,677
Balance at December 31	**1,653,663**	**1,368,051**

Movements on the accounts of provisions are provided below:

In 000 RSD

	2018.				2017.			
	Provisions for Off-Balance Sheet Items (Note 14)	**Provisions for Litigations (Note 38.4)**	**Provisions for Employee Benefits (IAS 19)**	**Total**	**Provisions for Off-Balance Sheet Items (Note 14)**	**Provisions for Litigations (Note 38.4)**	**Provisions for Employee Benefits (IAS 19)**	**Total**
Balance, January 1	124,392	791,982	451,677	1,368,051	430,941	913,837	442,516	1,787,294
Correction of opening balance – IFRS 9	95,358	-	-	95,358	-	-	-	-
Ajusted initial state 01.01.2018.	219,750	791,982	451,677	1,463,409	-	-	-	-
Changes over the year	360,293	270,971	80,266	711,530	276,066	173,187	33,809	483,062
Provisions against actuarial gains within equity	-	-	(53,386)	(53,386)	-	-	(24,648)	(24,648)
Release of provisions	-	(28,691)	-	(28,691)	(260,686)	(269,616)	-	(530,302)
Reversal of provisions	(305,089)	(134,110)	-	(439,199)	(321,929)	(25,426)	-	(347,355)
Balance at December 31	**274,954**	**900,152**	**478,557**	**1,653,663**	**124,392**	**791,982**	**451,677**	**1,368,051**

36. PROVISIONS (continued)

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of damage claims including interest and costs. Total provisions for 1,725 cases as of 31 December 2018 amounted to RSD 900,153 thousand.

In comparison with 31 Decemebr 2017 there was a change in the overall level of provision in the net amount 181,171 thousand dinars. Of that, a change that relates to the additional provisions for litigations is 136,861 thousand dinars, recognized in the income statement, while the reduction of provisions totaling to 28,690 thousand dinars refers to the use of the provisions for payments and for passed court verdicts.

Other disputes mainly relate to claims for damages and labor disputes.

b) Provisions for retirement benefits

Provisions for retirement benefits were formed on the basis of an independent actuary at the balance sheet date, and they are stated in the present value of expected future payments.

The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2018	(000) RSD December 31, 2017
Discount rate	4.75%	4.50%
Salary growth rate within the Bank	2.00%	4.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

37. OTHER LIABILITIES

Other liabilities include:

	December 31, 2018	(000) RSD December 31, 2017
Accounts payable	471,594	385,364
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	71,059	59,886
Advances received	26,820	29,465
Accrued interest, fees and commissions	144,594	139,906
Accrued liabilities and other accruals	357,763	534,653
Liabilities in settlement	2,276,184	3,077,198
Dividend payment liabilities	5,442,133	2,507,577
Taxes and contributions payable	26,263	23,450
Other liabilities	243,562	785,943
Balance as at December 31	**9,059,972**	**7,543,442**

37. OTHER LIABILITIES (continued)

Liabilities in settlement totaling to RSD 2,276,184 thousand dinars mostly relate to liabilities for sale and purchase of foreign currencies in the foreign exchange market from banks in foreign currency in the amount of RSD 709,168 thousand, liabilities for sale and purchase of foreign currencies in RSD in the amount of RSD 708,910 thousand and foreign currency liabilities for spot transactions in the amount of RSD 227,056 thousand and obligations arising from claim payment cards in the amount of 322,546 thousand dinars.

Liabilities from profit in the amount of RSD 5,442,133 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 86,497 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 4,456,758 thousand and
- liabilities from profit to employees in the amount of RSD 898,877 thousand.

With the Decision of the Shareholders Assembly of the Bank no. 6380/3 from 26 April 2018, a part of prior year's retained earnings was distributed for dividends on ordinary shares in the amount of RSD 2,522,693 and preferred shares in the amount of RSD 13,222 thousand with a payout limit of fulfillment of the requirements stated in the Article 25 of the Law on Banks.

During 2018, the Bank did not carry out payments based on the distribution of profits for 2014, 2015, 2016 and 2017 because of the abovementioned limitation.

38. EQUITY

38.1 Equity is comprised of:

(000) RSD

	December 31, 2018	December 31, 2017
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	14,223,535	11,061,535
Revaluation reserves	4,254,737	4,026,721
Retained earnings	902,509	19,881
Profit / (Loss) for the period	8,145,182	8,117,368
Balance as at December 31	**67,560,513**	**63,260,055**

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution. As of December 31, 2018 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

The effect of the first application of the IFRS 9 as of 1 January 2018, the Bank has recognised on retained earnings from previous years, without adjustment of data for the previous year, on the basis of changes relating to the classification and measurement, as well as impairment. The total negative effect of differences in accounting values of assets resulting from the application of IFRS 9 recognised in equity as of 1 January 2018, the Bank has covered by distribution of gain from 2017 on the basis of the decisions of the Assembly 6380/3 from 26 April 2018. The same decision was made and an increase in Bank reserves of RSD 3,162,000 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

38. EQUITY (continued)

Impairment allowance of financial assets measured at amortised cost and including the effect of the change in the provision for off-balance sheet assets	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
949,746	211,947	1,161,693

Breakdown of the Bank's shares is provided in the table below:

	(000)RSD	
	Share Count	
Share Type	**December 31, 2018**	**December 31, 2017**
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2018 was as follows:

		(000) RSD
Shareholder	**Number of shares**	**%share**
Republic of Serbia	7,022,166	41.75
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
BDD M&V INVESTMENTS AD BEOGRAD	320,000	1.90
Kompanija Dunav osiguranje a.d., Beograd	290,214	1.73
East Capital (lux)-Balkan Fund	195,656	1.16
Global Marco Capital Opportun	130,558	0.78
Stankom co. d.o.o., Beograd	117,535	0.70
Global Marco ABSOLUTE RETURN	91,575	0.54
SOCIETE GENERAL BANKA SRBIJA (*castody* account)	81,651	0.49
FRONT MARK OPPORTUN.MASTER	68,404	0.41
Others (1,154 shareholders)	1,203,077	7.15
	16,817,956	**100.00**

38. EQUITY (continued)

The structure of the Bank's shareholders with preferred shares at December 31, 2018 was as follows:

Shareholder	Share Count	(000) RSD %share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (647 shareholders)	270,280	72.37
	373,510	**100.00**

Revaluation reserves totaling RSD 4,254,737 thousand (2017: RSD 4,026,721 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 928,776 thousand, revaluation reserves from valuation of equity securities in the amount of RSD 1,077,886 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 2,125,497 thousand and actuarial gains of RSD 122,578 thousand. Presented values include deferred tax effects.

38.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2018	2017
Earnings minus preferred dividend (in RSD thousand)	8,132,109	8,104,145
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	**484**	**482**

Basic earnings per share for the year 2018 amounts to RSD 484 or 48.35%of the nominal value of ordinary shares, while for 2017 earning per share was RSD 482, or 48.19%of the nominal value of the ordinary shares, and for 2016 loss amounted to RSD 480 or 48.04%of the nominal value of the ordinary shares.

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2018	(000) RSD December 31, 2017
Operations on behalf and for the account of third parties	4,228,635	4,226,654
Taken-over future liabilities	44,069,612	34,941,426
Derivatives intended for trading under the contract currency	1,772,919	592,364
Other off-balance sheet items	407,748,884	434,668,336
Total	**457,820,050**	**474,428,780**

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

39.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	December 31, 2018	(000) RSD December 31, 2017
Payment guarantees	3,107,502	3,443,746
Performance guarantees	3,004,569	4,349,151
Letters of credit	214,361	104,330
Balance as at December 31	**6,326,432**	**7,897,227**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

39.2 Commitments

The breakdown of commitments is provided below:

	December 31, 2018	(000) RSD December 31, 2017
Unused portion of approved payment and credit card loan facilities and overdrafts	11,017,337	10,116,077
Irrevocable commitments for undrawn loans	24,627,309	16,014,883
Other irrevocable commitments	2,098,534	913,239
Balance as at December 31	**37,743,180**	**27,044,199**

39.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,228,635 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,524,405 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 291,695 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 407,748,884 thousand, the Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients (RSD 58,545,369 thousand), the nominal value of the securities in the portfolio of the Bank (RSD 126,251,383 thousand), repo investments in Treasury bills (RSD 1,500,000 thousand), the amount written-off of funds in dollars in the amount of 28,336,005 thousand dinars, and the amount written-off of financial assets in foreign currency in the amount of 3,803,166 thousand dinars, according to the NBS of the accounting write off balancing assets. The Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients ' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds. Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 178,731,833 thousand.

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

39.4 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal suits filed against the bank in 2018 in the total amount of RSD 900,152 thousand (2017: RSD 791,982 thousand) (Note 36).

As of 31 December 2018 contingent liabilities based on legal suits filed against the Bank amounted to RSD 1,925,451 thousand (for 2072 cases).

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 37,417,637 thousand (for 552 cases with the largest individual claim amounts) The Bank's management anticipates favorable outcome of the most lawsuits.

39.5 Commitments for operating lease liabilities are provided below:

	December 31, 2018	(000) RSD December 31, 2017
Commitments due within one year	379,610	369,364
Commitments due in the period from 1 to 5 years	877,772	855,834
Commitments due in the period longer than 5 years	91,020	118,340
Total	**1,348,402**	**1,343,538**

39.6 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.
During 2018, the Bank had no tax controls.

40. RELATED PARTY DISCLOSURES

Legal entities and individuals are considered related parties if one party has control, joint control or significant influence in making financial and operating decisions of another legal entity. Related parties are also those who are under the common control of the same parent company.

In the normal course of business, a number of banking transactions are performed with subsidiaries. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

40.1. Shareholders and subsidiaries

The largest portions of the Bank's voting shares are held by the Republic of Serbia (41.74% of ordinary shares) and EBRD, London (24.43% of ordinary shares). The Bank has 3 subsidiaries: Komercijalna banka a.d., Podgorica, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

40. RELATED PARTY DISCLOSURES

40.1. Shareholders and subsidiaries (continued)

A. Balance as at December 31, 2018

RECEIVABLES

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,651	882	-	93	7,440	-	7,440
2 Komercijalna banka AD Banja Luka	101,737	25	881	1,261	101,382	1,181,946	1,283,328
3. Kombank Invest	-	162	-	-	162	200	362
Total:	**108,388**	**1,069**	**881**	**1,354**	**108,984**	**1,182,146**	**1,291,130**

LIABILITIES (000) RSD

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	1,440,473	-	1,651	1,442,124
2 Komercijalna banka AD Banja Luka	179,992	-	-	179,992
3. Kombank Invest	8	-	-	8
Total	**1,620,473**	**-**	**1,651**	**1,622,124**

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	70	2,994	-	(2)	3,062
2 Komercijalna banka AD Banja Luka	3,449	4,073	-	(835)	6,687
3. Kombank Invest	-	1,386	-	-	1,386
Total	**3,519**	**8,453**	**-**	**(837)**	**11,135**

Komercijalna banka a.d. Beograd realized net foreign exchange losses in the amount of RSD 10,321 thousand (2017: net foreign exchange gains of RSD 54,899 thousand) from related parties transactions.

40. RELATED PARTY DISCLOSURES(continued)

40.1. Shareholders and subsidiaries (continued)

B. Balance as at December 31, 2017

RECEIVABLES (000) RSD

Subsidiaries	Loans and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,589	902	-	7,491	-	7,491
2 Komercijalna banka AD Banja Luka	490,815	42	1,295	492,152	-	492,152
3. Kombank Invest	-	119	-	119	200	319
Total:	**497,404**	**1,063**	**1,295**	**499,762**	**200**	**499,962**

LIABILITIES (000) RSD

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
1.Komercijalna banka AD Podgorica	1,019,079	-	1,654	1,020,733
2 Komercijalna banka AD Banja Luka	229,884	-	-	229,884
3. Kombank Invest	49	-	-	49
Total:	**1,249,012**	**-**	**1,654**	**1,250,666**

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
1.Komercijalna banka AD Podgorica	103	2,603	-	(632)	2,074
2 Komercijalna banka AD Banja Luka	3,940	3,871	-	(781)	6,914
3. Kombank Invest	-	1,521	(102)	-	1,419
Total:	**4,043**	**7,995**	**(102)**	**(1,529)**	**10,407**

Komercijalna banka a.d., Beograd realized net foreign exchange gains in the amount of RSD 54,899 thousand (2017: net foreign exchange losses of RSD 20,944 thousand) from related party transactions.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

40. RELATED PARTY DISCLOSURES(continued)

40.2 Other related parties

Loans and receivables from related parties

(000) RSD

	2018			2017		
Loand and Receivables	Balance	Off balance	Total	Balance	Off balance	Total
Bolero ZR	1	-	1	-	-	-
PMC Inzinjering	1	-	1	-	-	-
Cedens company	-	-	-	29	63	92
Physical entities	148,782	14,815	163,597	128,509	13,334	141,843
Total	**148,784**	**14,815**	**163,599**	**128,538**	**13,397**	**141,935**

Liabilities	**depsits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**total**
PMC Inzinjering	207	-	207	-	-	-
Arhitektonski biro studio 3	1	-	1	-	-	-
JP Jugoimport	29	-	29	-	-	-
Anfibija doo Cacak	239	-	239	189	-	189
EBRD (note 32)	-	710,563	710,563	-	2,145,943	2,145,943
International Finance Corporation (note 32, 34)	9	-	9	-	-	-
Reprezend DOO	12	-	12	12	-	12
Bolero ZR	11	-	11	8	-	8
Cedens company	-	-	-	2,364	-	2,364
Natural persons	146,812	-	146,812	94,898	-	94,898
Total	**147,320**	**710,563**	**857,883**	**97,471**	**2,145,943**	**2,243,414**

	2018		
	Interest	**Fees**	**Total**
Income			
PMC Inzinjering	-	12	12
Anfibija doo Cacak	-	7	7
Arhitektonski biro studio 3	-	12	12
Bolero ZR	-	18	18
Physical entities	7,207	1,124	8,331
Total	**7,207**	**1,173**	**8,380**
Expenses			
EBRD	40,813	-	40,813
Natural persons	1,109	736	1,845
Total	**41,922**	**736**	**42,658**
Net expenses	**(34,715)**	**437**	**(34,278)**

40. RELATED PARTY DISCLOSURES(continued)

40.2. Other related parties (continued)

(000) RSD

	2017		
	Interest	**Fees**	**Total**
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija	-	8	8
Natural persons	6,471	1,386	7,857
Total income	**6,481**	**1,556**	**8,037**
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Natural persons	282	512	794
Total expenses	**384,756**	**5,644**	**390,400**
Net expenses	**(378,275)**	**(4,088)**	**(382,363)**

40.3 Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee were as follows:

(000) RSD

	December 31, 2018	December 31, 2017
Gross remunerations		
Executive Board	58,927	84,279
Net remunerations		
Executive Board	49,500	72,177
Gross remunerations		
Board of Directors and Audit Committee	40,324	37,415
Net remunerations		
Board of Directors and Audit Committee	25,310	22,963

41. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Based on the analysis of the regular annual census conducted on December 31, 2018, the Bank has non-compliant statements of open items for 10 clients with the stated reason for the dispute.

Non-compliant statements for three clients relate to clients who challenge the amount of receivables for given advances, claims based on issued invoices, claims on the basis of a rent in the total amount of RSD 282 thousand.

For one client conflict is related to off-balance items presented as guarantee because of different tracking dates of issued guarantee in Bank ledgers and a client's of RSD 4,137 thousand.
Six clients disputed amounts: receivables from domestic and foreign payment fees, the amount of mature annuity, the method of calculating default interest in the total amount of RSD 80 thousand.

The amount of imapirment for claims that are contested (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.The Bank is in a continuous process of reconciling of the disputed items.

42. EVENTS AFTER THE REPORTING PERIOD

In accordance with the provisions of the valid pre-prepared reorganization plan, by executing a contract between two clients, on February 12th, 2019 the Bank has collected the amount of RSD 442,089 thousand (EUR 3,740 thousand) from the client whose placement was completely impaired and as such was classified as off-balance sheet item, based on the purchase of warehouse space over which the Bank had the mortgage. The total amount of RSD 442,089 thousand is recognized in the income statement on the basis of collection of written-off receivables.

Other than those events described above, there were no significant events after the balance sheet date that would be necessary to be disclosed in the financial statements.

43. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2018 and 2017 for certain major currencies are:

	December 31, 2018	December 31, 2017
USD	103.3893	99.1155
EUR	118.1946	118.4727
CHF	104.9779	101.2847

In Belgrade, March 12, 2019

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

БАНКА АД БЕОГРАД
КОМЕРЦИЈАЛНА
БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

ANNUAL REPORT ON OPERATION OF KOMERCIJALNA BANKA AD BEOGRAD FOR THE YEAR 2018

March 2019

C O N T E N T S

1. KEY PERFORMANCE INDICATORS OF THE BANK

PROFIT AND LOSS (in RSD thousand)	2018.	2017.	Index 18/17	2016.	2015.	2014.
Profit/loss before taxation	8.121.073	7.187.250	113,0	-8.377.636	-6.175.885	4.757.589
Net interest income	12.834.638	12.446.197	103,1	13.462.734	13.768.082	13.298.586
Net income from fees	5.210.149	5.082.226	102,5	4.817.314	4.899.947	4.717.757
*Operating costs**	10.473.783	10.833.081	96,7	11.086.858	10.799.510	10.745.910
Net revenues/expenses from indirect write-offs of loans and provisions	9.493	17.883	53,1	-14.907.539	-13.008.526	-2.725.389

** Note: Operating expenses include costs of salaries, tangible and intangible operating costs*

BALANCE SHEET (in RSD 000)	2018.	2017.	Index 18/17	2016.	2015.	2014.
BALANCE SHEET ASSETS	401.165.980	369.183.538	108,7	400.017.469	393.439.874	406.261.524
RETAIL						
*Loans ** *	92.033.605	81.712.222	112,6	75.522.465	70.784.957	69.039.387
*Deposits****	260.296.411	241.210.420	107,9	231.312.395	218.836.847	207.430.548
CORPORATE						
Loans	75.264.373	71.725.704	104,9	74.083.897	89.204.275	112.768.251
Deposits	49.879.580	41.371.592	120,6	78.300.568	55.503.896	57.437.462
Securities	133.177.598	117.288.767	113,5	136.366.773	129.607.464	95.654.325

***Note: The position of loans does not include other loans and receivables, position of deposits does not include other liabilities and funds received through credit lines. At the request of the auditor in 2017, the balance sheet for 2015 was adjusted*
**** Note: At the end of 2017, RSD 11.2 billion of micro clients deposits were transferred from the corporate to the retail sector, which is why the data was corrected in relation to the Annual Report on Operation for 2017*

RATIOS	2018.	2017.	Index 18/17	2016.	2015.	2014.
LOANS/DEPOSITS RATIO						
Gross loans/deposits	58,4%	61,3%		58,7%	67,4%	72,4%
Net loans/deposits	54,8%	56,1%		50,7%	57,2%	66,3%
CAPITAL (in RSD 000)	67.560.513	63.260.055	106,8	55.424.302	62.838.046	69.546.804
Capital adequacy	29,18%	27,89%		26,97%	22,70%	17,67%
Number of employees	2.766	2.806	98,6	2.858	2.877	2.906
PROFITABILITY PARAMETERS						
ROA	2,13%	1,89%		-2,05%	-1,56%	1,25%
ROE-on total capital	12,57%	11,91%		-13,86%	-8,99%	7,05%
Net interest margin on total assets	3,4%	3,3%		3,3%	3,5%	3,5%
Cost / income ratio	58,0%	61,8%		60,7%	57,9%	59,6%
Assets per employee (in RSD 000)	1.227	1.111	110,5	1.134	1.124	1.156

The business operations in 2018 were in a relatively stable macroeconomic environment, with positive trends in key sizes. The year behind us was marked by the growth of gross domestic product (GDP), high level of foreign direct investment, surplus of the republic budget, and decline in public debt in GDP, dinar appreciation in relation to euro and unemployment drop.

In the previous year, the National Bank of Serbia (NBS), in the framework of the activities aimed at further strengthening the overall stability of the banking sector, among other things, made a decision on amending the Law on Banks. Major novelties refer to the way in which the NBS assesses the business reputation of the bank's founder, the bank's acquirer of participation, the candidate for membership in the bank's management bodies; assessment of the assets of the bank's founder of the natural person who is the founder and/or member of the private investment fund; circumstances that may imply that there are indications that a bank is established for the purpose of money laundering or terrorist financing, etc.

The NBS has also introduced the Instant Payment System (IPS) starting in October 2018 since when the Banks have been obliged to provide clients with the infrastructure for instant transfers. The NBS IPS payment system works continuously 24 hours a day, 7 days a week, 365 days a year (24/7/365).

Since December 2018, the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions has been implemented. In this way, the NBS intervened in the banking market in order to reduce the interchange fee for card payments (0.2% maximum fee for debit cards and 0.3% for credit cards).

The capital adequacy ratio of the sector was on a high and stable level during the first three quarters of 2018 as well as at the end of 2017. Interest rates on newly granted loans to the corporate and retail clients were stable and low. Low inflationary pressures, during 2018, provided that the NBS additionally relaxed monetary policy by lowering the reference interest rate from 3.5% to 3.0%.

In the third quarter of 2018, the country's risk premium was among the lowest in the region and amounted to 123 bp on average[1]. From the beginning of the year to the end of the third quarter, the average value of the EMBI index for Serbia was lower by about 50 bp than in the same period of the previous year. This confirms that the country's risk premium has remained relatively low. The risk premium of Serbia, measured by the EMBI index, was 114 bp on average in October.

After several years in which there was a trend of decreasing the Bank's market share in key performance indicators of the banking sector, the last three quarters of 2018 brought a turn in the position of the Bank in the sector. The Bank remains in the group of systemically significant banks, but with increased share in the assets and capital of the sector. At the end of the third quarter of 2018, the Bank participated in the sector's assets with 10.9%, while in the share capital of the sector it participated with 10.0%. In the sector, the Bank also stands out as a leader in the volume of foreign currency savings of the retail clients. At the end of 2018 savings deposits of the retail clients amounted to EUR 1,692.0 million.

Safe, stable and profitable operations, as the key goals set before the Bank in 2018, have been achieved. When we say this, we have in mind that the Bank realized growth of balance sheet assets and profit in operations with high liquidity and extremely good capitalization.

The total capital of the Bank, as one of the key performance indicators of security that the Bank provides to its clients, grew by 6.8% in 2018. At the end of 2018, the Bank had total capital in the amount of RSD 67,560.5 million or EUR 571.6 million.

The Bank's capital adequacy ratio, as the most significant relative performance indicator of security, at the end of 2018, was 29.18% (minimum 8% + capital buffer is prescribed).

In order to maintain a high degree of its clients' satisfaction, the Bank continued to monitor the business network in 2018 and accessed the necessary changes. When modifying the business network, the key objectives were: increasing efficiency in dealing with clients, accelerating the process of making loan decisions, and creating the prerequisites for further active management of the amount of operating costs. After the changes from the end of the first quarter of 2018, the Bank has been providing services to the retail clients through a network of 202 sub-branches grouped into six Business

[1] NBS, Report on Inflation, November 2018

Centers and Kosovska Mitrovica Branch. The work with legal persons takes place through three divisions for work with small and medium-sized enterprises and the division for work with the corporate - large clients.

The whole society is increasingly based on the Internet, electronic and digital business operations, which also force banks to find ways to apply modern technologies to their operations. Being fully aware of these changes, the Bank also set the digitization of operations as one of the important goals. Today, the Bank already provides, at the highest standards, almost all digital banking services to its clients in the same way that these services are available to users in the most developed countries of the world. Digitization is also a process that the Bank, among other things, uses to improve business processes, that is, to increase the efficiency and quality of work. From the segment of digitalization, from those realized in 2018, we can highlight the electronic sub-branch ("KOMeCENTAR") that has come to life and which enabled us to apply for a certain product and service through the Internet without going to a sub-branch. The offer of the digital sub-branch has been extended by introducing the option to apply for a cash loan through electronic banking. "KOM4PAY" service of integrated e-commerce payments was released into production through a client's electronic bank.

In order to further improve the risk management system, in accordance with the NBS regulation, the Bank undertook all necessary measures for quality management of credit and other risks. The greatest risk to the Bank and the banking sector's operations remains the credit risk. As a result of the established risk management system and the application of NBS regulation, the Bank significantly reduced the ratio of non-performing loans (NPL). At the end of 2018, the NPL ratio was 9.5%, while at the end of 2017 it was 13.8%.

Komercijalna banka is also one of the regional banking leaders, because its business success is also contributed by the subsidiaries, Komercijalna Banka Podgorica, Komercijalna Banka Banja Luka and KomBank Invest Beograd.

The Bank ended the year 2018 with a positive result (before taxation) of RSD 8,121.1 million. The positive result achieved in the previous two years and the high capital adequacy enabled the Bank to form a sufficient amount of reserves from the profit. Reserves from profit, at the end of 2018, were higher by RSD 3,390 million compared to the end of 2017.

In the following period, according to the Strategy and Business Plan, the focus of the Bank will be on:

- Growth of placements to clients;
- Control of all types of operating risks, particularly the credit risk;
- Preservation and improvement of the client structure ;
- Growth of income from fees and commissions;
- Control of operating expenses;
- Raising the Bank's capital base.

The Bank's financial objectives (in %)	2018. realised	2019. plan	2020. plan	2021. plan
Growth of assets	8,7	5,8	4,5	4,8
Profit/loss before taxation (RSD billion)	8.121	7.601	8.050	8.539
ROA	2,1	1,9	1,9	1,9
ROE-tota capital	12,6	11,0	11,1	11,2
Interest margin (net interest income / average assets)	3,4	3,3	3,1	3,1
Cost/Income ratio	58,0	58,0	57,0	55,3
NPL	9,5	8,2	7,5	6,8

2. MACROECONOMIC OPERATING CONDITIONS

According to the International Monetary Fund (IMF) forecast, as of October 2018, global growth estimates for the global economy for 2018 are 3.7%[2] despite weaker results in some economies, especially in Europe and Asia. China remains the main initiator of global economic development. China's GDP growth rate estimate for 2018 is 6.6% and 6.2% for 2019[3]. The end of 2018 was marked by introduction of additional customs barriers to the export of certain products to the US market. In 2018, geopolitical tensions in the Middle East (Syria) continued.

In the international financial market, during 2018 the diversity of monetary policies of leading central banks, the Federal Reserve (FED, USA) and the European Central Bank (ECB) was present. Federal Reserve raised the reference rate at the end of 2018 by 0.25 % (2.25% -2.50%), the European Central Bank kept the reference rate (0.00%), the Bank of England increased the interest rate by 0.25 % at the end of 2018 (0.75%), while the Swiss National Bank did not change the reference rate in 2018 (from - 1.25% to -0.25%). The aforementioned divergence of the monetary policies of the leading central banks makes global capital flows to the developing countries uncertain, Serbia included. At the end of 2018, the ECB announced that it would put an end to the EUR 2,600 billion asset purchase programme, which was launched in 2015 in response to the economic crisis.

According to Eurostat's estimates, annual "hicp" inflation in the euro zone fell to 2.0% in November from 2.2% in October 2018.[4] Looking at the future, core inflation is expected to increase in the medium term, supported by measures of the ECB's monetary policy, current economic expansion and salery growth.

GDP of the euro zone in the third quarter of 2018 increased 0.2% after a growth of 0.4% in the first two quarters.[5] According to ECB projections from October, the expected rate of GDP growth is 1.9% in 2018, 1.7% in 2019 and 2020 and slightly corrected down to the September estimate.

On the commodity market, the crude oil price oscillation continued. During 2018, the United States became the largest oil producer in the world. The price of oil was also affected by trade tensions between the US and China at the end of the year. The production of OPEC members in December 2018 recorded the highest monthly decline in the last two years, due to the fact that Saudi Arabia began to reduce production in line with the new agreement[6]. The price of Brent type oil at the end of December 2018 remained at the level of USD 53.17 per barrel.

In the Republic of Serbia, following the revision of the original growth projection from 3.5% to 4.2%, the latest estimate of annual GDP growth rate is 4.4% in 2018[7]. Correction of the growth rate was mostly affected by agricultural production above the expected one, construction works higher than projected both in the private and public sectors. Year-on-year inflation also remained low and stable in 2018, and the average value for the whole year was 2.0%[8]. According to the expectations of the NBS, inflation will continue to move within the target of 3.0% ± 1.5pp in the next year. According to the results from the Labour Force Survey (third quarter of 2018), the unemployment rate is 11.3% and is the lowest since 2014. In the period January-November 2018, the total value of foreign trade amounted to EUR 35.1 billion[9]. The net inflow of foreign direct investment (FDI) at the end of November 2018 amounted to about EUR 2.2 billion[10], which is approximately on the same lever as for the same period of 2017. FDIs were mainly directed towards export-oriented sectors. The central government's public debt at the end of November 2018 amounted to EUR 24.1 billion, representing 56.2% of GDP, while in the same period of 2017 it amounted to EUR 23.4 billion[11]. The risk premium of Serbia, measured by the EMBI index (bond index of developing countries) was lower by about 50 basis points (bp) from the beginning of 2018 until the end of the third quarter than in the same period of the previous year. In October 2018, the EMBI for Serbia was on average 114 bp.[12]

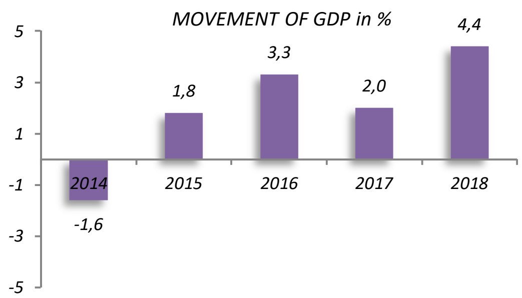
In 2018, the Belgrade Stock Exchange realised total turnover of RSD 63.2 billion or EUR 534.1 million. 60,744 transactions were realised and the market capitalization amounted to RSD 522.7 billion[13]. The stock exchange index Belexline ended the year at 1,589.35 while the Belex15 index reached 761.69.

2 Source: IMF, World Economic Outlook, October 2018
3 Source: IMF, World Economic Outlook, October 2018
4 Source: ECB, economic and monetary developments
5 Source: ECB, economic and monetary developments

6 NBS, Review of events on the world financial market, December 2018 - January 2019 .
7 MoF, Current Macroeconomic Trends, January 2019
8 SORS, Press Release, December 2018
9 MoF, Current Macroeconomic Trends, January 2019
10 NBS, Current Macroeconomic Trends, January 2019
11 MoF, Public debt of RS, November 2018
12 NBS, Report on inflation, November 2018
13 Belgrade Stock Exchange, Annual statistics

GDP Trends

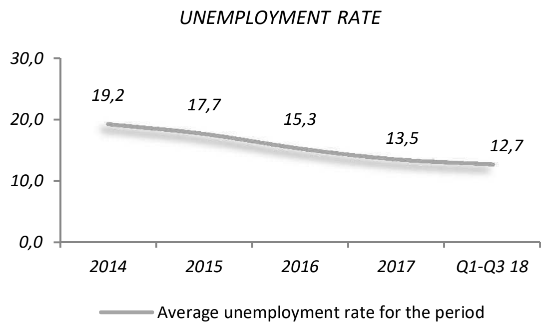
After 2017 and the achieved economic growth of 2.0%[14], the economic activity continued positive trends in 2018. According to the first estimates of the Ministry of Finance of the Republic of Serbia in the first eleven months of 2018, GDP growth was 4.4%[15] compared to the previous year. In the third quarter of 2018, growth in total economic activity measured by GDP of 3.8%[16]% followed in relation to the same quarter of the previous year. The largest contribution to GDP growth, from the production side, was given through growth of the service sector, agriculture, construction, as well as the stable contribution of the industry. In November, the manufacturing and processing industry maintained the same annual level of manufacturing volume, mining and electricity production recorded a decline, which was also marked by a decline in the total industry by 1.0% yoy. Turnover of goods in retail trade increased by 4.3%, number of overnight stays of foreign tourists increased by 11.6%, number of newly registered cars increased by 10.4%, number of issued building permits increased by 6.3%[17]. On the consumption side, GDP growth was driven by investment activity and private consumption, followed by the positive impact of government spending.



Employment/unemployment

In 2018, the trend from previous years continued, the labor market continued to recover. The growth of economic activity also positively reflected in the labour market by reducing the number of the unemployed from the beginning of the year. According to the data from the Labour Force Survey, at the end of the third quarter of 2018, there was a decrease in unemployment compared to the same period of 2017.

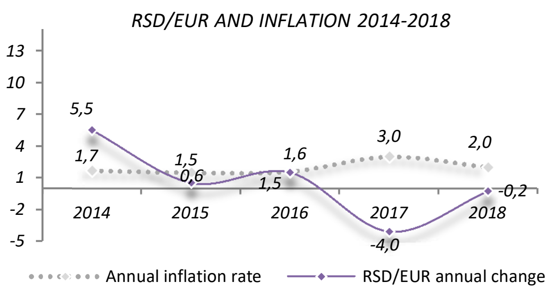
The unemployment rate at the end of the third quarter of 2018 amounted to 11.3% and was reduced compared to the same period of 2017 when it was 12.9%. The number of employed persons aged 15 and over was higher by 47,400, and the number of unemployed persons was lower by 56,400[18]. In the structure of total employed persons, the number of formal employees increased by 76,900, in the manufacturing and processing industry, accommodation service, wholesale and retail sectors and repair of motor vehicles. The number of informal employees decreased by 29,500 [19] compared to the same period last year.



Source: Statistical Office of the Republic of Serbia, Labour Force Survey

Inflation

At the end of 2017, year-on-year inflation amounted to 3.0%. At the beginning of 2018 the inflation rate decreased and at the end of Decemer of the same year it amounted to 2.0% yoy[20]. The inflation has stabilised and ranged at about 2.0% for the past five years. Level of inflation in 2018 was primarily impacted by the prices of food and services. According to the NBS projections, year-on-year inflation will continue to move within the target of 3.0%±1.5 pp. in the coming period.



Reference interest rate

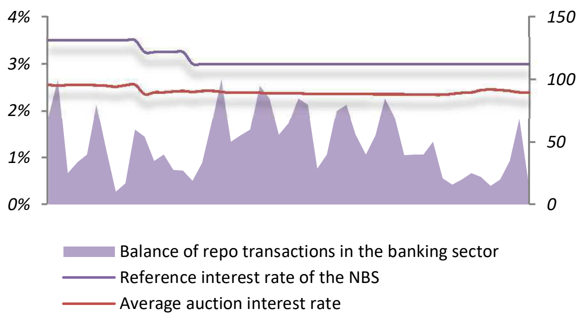
At the end of 2018, the National Bank of Serbia retained the reference interest rate (RIR) at the level of 3.0%, after two decreases during the year (in March and April). During decrease of the RIR,

14 NBS, Macroeconomic Trends, January 2019
15 MoF, Current Macroeconomic Trends, January 2019
16 MoF, Current Macroeconomic Trends, January 2019
17 MoF, Current Macroeconomic Trends, January 2019

18 SORS, Labour Force Survey, third quarter of 2018
19 SORS, Labour Force Survey, third quarter of 2018
20 SORS, Press Release, Consumer Price Index, January 2019

the National Bank of Serbia took into account the expected inflation trend in the coming period and the results of the recent mitigation of monetary policy. Caution in the implementation of monetary policy is needed because of developments in the international environment, the expected measures of the European Central Bank, US Federal Reserve, oscillatory crude oil prices, protectionism in international trade, etc. According to the estimates of the Statistical Office of the Republic of Serbia, average inflation for 2018 will amount as low as 2.0% while the GDP growth rate will be 4.4%, yoy. With the additional decrease of the RIR in conditions of low inflationary pressures, the National Bank of Serbia gave additional support to the growth of the credit activity of business banks. Through the reverse repo instrument, the National Bank of Serbia enabled banks to place excess liquid assets in treasury bills, using the method of auction and multiple interest rates. At the end of 2018, the average weighted repo rate was 2.39%, while at the end of 2017 it amounted to 2.57%. The volume of repo transactions ranged from a minimum of RSD 10.3 billion to a maximum volume of RSD 100.0 billion, to end the year with RSD 16.5 billion.

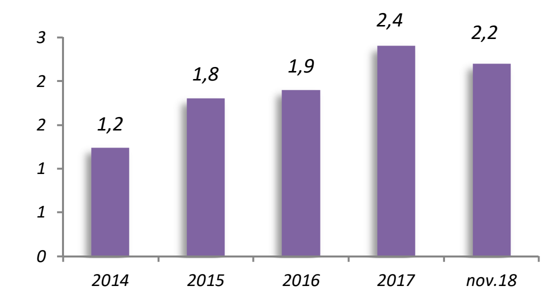
RIR AND REPO TRANSACTIONS DURING 2018



Foreign direct investments

Foreign direct investments (FDI), for the period January-November 2018, amounted to about EUR 2.2 billion[21], which is at the level for the same period in 2017. With preliminary data for December, volume of FDI exceeds the amount of EUR 3.0 billion[22]. In 2018, FDI were mainly directed to export oriented sectors. Major part of inflow was from manufacturing and processing industry, in particular car, metal, metal, food and chemical industries.

FOREIGN DIRECT INVESTMENTS (EUR billion)

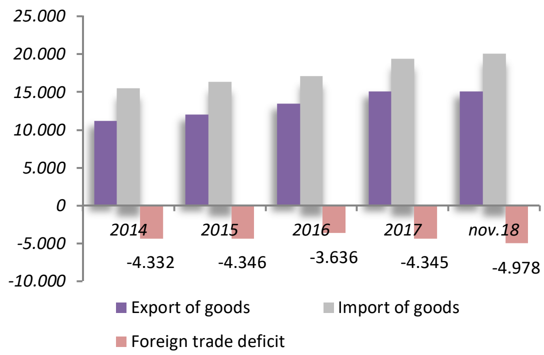


Above mentioned investments, inter alia, influenced the growth of employment, the growth of production and exports of the processing industry. The current account deficit of the Republic for the year 2018 is expected to amount to about EUR 2.2 billion, but will be fully covered with FDI, and keep its share in GDP at 5.2%[23].

Foreign trade exchange

The total foreign trade of the Republic of Serbia in the period January-November 2018 amounted to EUR 35.1 billion[24]. This volume represents an increase of 11.2% compared to the same period of the previous year. Export of goods, for the eleven months of 2018, reached a value of EUR 15.1 billion, while import of goods in the same period amounted to EUR 20.0 billion. Deficit of the realized trade exchange amounted to EUR 4.9 billion, which is an increase of 30.7% compared to the same period of the previous year.

FOREIGN TRADE EXCHANGEEUR billion)



The most important export products in the observed period were electric machines and appliances with a share of 10.6%, followed by road vehicles with a share of 6.8%[25]. Observed by the companies that are the largest exporters, HBIS Group Serbia doo Belgrade was the leading exporter in the period January-December 2018. By the end of December 2018, the volume of exports of HBIS Group Serbia doo Belgrade (former

21 NBS, Macroeconomic trends, January 2019
22 NBS, Macroeconomic trends, January 2019

23 MoF, Fiscal strategy for 2019
24 MoF, Current Macroeconomic Trends, January 2019
25 MoF, Current Macroeconomic Trends, January 2019

Steelworks Smederevo) amounted to EUR 749.5 million, followed by FCA Serbia doo Kragujevac, NIS ad Novi Sad, Tigar Tires doo Pirot[26].

The most important import products were oil and oil derivatives, a share of 7.6% and road vehicles with a share of 7.0%[27].

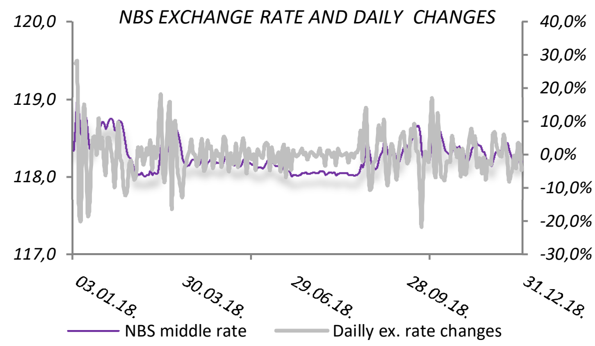
Observing the structure of foreign trade exchange by regions and countries, about 2/3 of the foreign trade is still carried out with EU countries. Imports from EU countries account for 60.6% of total imports, while exports to EU countries account for 67.3% of total exports[28] in the period January-November 2018. The main foreign trade partners from the EU were Italy and Germany in 2018 with 24.6% of total exports, and 22.8% of total imports from the same countries[29].

EUR/RSD exchange rate

The EUR/RSD exchange rate (118.19) at the end of 2018 was 0.2% lower than the exchange rate at the end of 2017. During 2018 the EUR/RSD exchange rate ranged from 118.06 to 118.47 RSD for 1 EUR. The dinar exchange rate was influenced by favorable macroeconomic indicators, successful completion of the stand-by arrangement with the IMF, improved country credit rating (agencies: Moodys, S & P, Fitch[30]) and the growth of foreign direct investments.

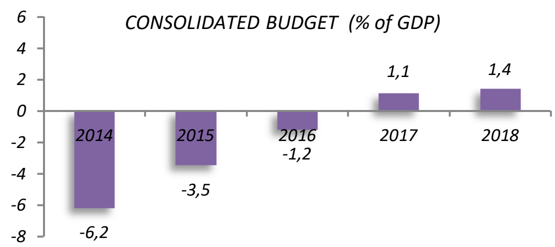
During 2018, the dinar appreciated against the euro by 0.2% and depreciated against the dollar by 4.1%. During 2018, the National Bank of Serbia (NBS) intervened on the interbank foreign exchange market (IFEM) through the purchase and sale of foreign currencies, thus preventing major daily fluctuations in the value of the domestic currency. During 2018, the volume of NBS purchases at IFEM amounted to EUR 1,835 million, while the sales volume amounted to EUR 255 million.

The NBS gross foreign currency reserves at the end of December 2018 reached the amount of EUR 11.3 billion (according to preliminary data) and increased compared to the end of 2017 by EUR 1.3 billion.



Budget deficit/surplus

In the period January-November 2018, at the general government level, the total fiscal surplus in the amount of RSD 73.6 billion was recorded[31]. In accordance with the plan for budget execution, for the same period, a total fiscal deficit of RSD 4.1 billion was envisaged, which means that the realization of the budget was better than the planned one.



Source: MoF (consolidated fiscal result) data for 2018 is an average of the first three quarters

In the period January-November 2018, a surplus of the budget of the Republic in the amount of RSD 67.4 billion[32] was achieved. During the mentioned period revenues were collected in the amount of RSD 1,073.8 billion, and the realized expenditures amounted to RSD 1,006.4 billion. In the period January-November 2018, budget revenues were nominally increased by 6.2% yoy, while budget expenditures increased by 7.9%, yoy.[33] Compared to 2017, the largest individual growth on the revenue side of the budget was recorded in social contributions, VAT and non-tax revenues. On the expenditure side of the budget, growth was recorded in capital expenditures, expenditures for employees and expenditures for goods and services. In the structure of budget revenues, in the aforementioned period, excise revenues increased by RSD 7.2 billion, representing a nominal growth of 2.8%. This increase is the result of increased collection of all excise categories

26 MoF, Current Macroeconomic Trends, January 2019
27 MoF, Current Macroeconomic Trends, January 2019
28 MoF, Current Macroeconomic Trends, January 2019
29 MoF, Current Macroeconomic Trends, January 2019
30 MoF, Current Macroeconomic Trends, January 2019

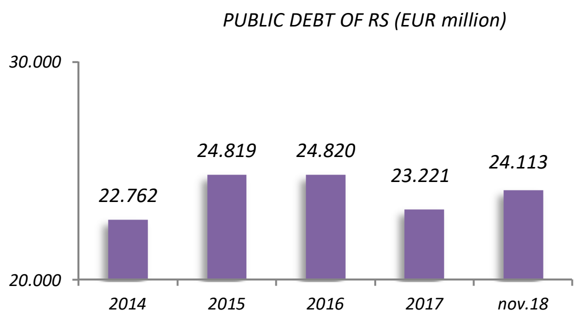
31 MoF, Press Release for November 2018
32 MoF, Press Release for November 2018
33 MoF, Current Macroeconomic Trends, January 2019

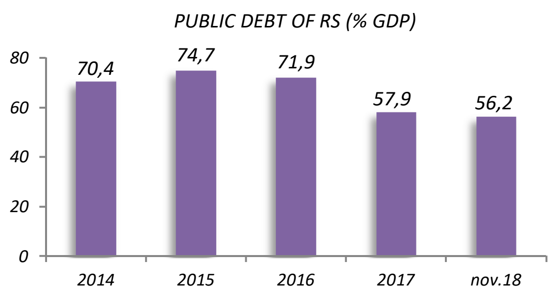
excluding excise tax on tobacco products and excise taxes on electricity[34].

More favorable fiscal performance in the past four years is the result of successful fiscal consolidation of budget expenditures as well as revenue growth due to faster GDP growth and better tax collection.

Public debt

Public debt of the Republic of Serbia (central government level), according to available data at the end of November 2018, amounted to EUR 24.1 billion[35], which is 56.2% of GDP. According to the available data from the Ministry of Finance, compared to the same period of 2017, the aforementioned amount of public debt represents an increase of EUR 667.0 million. Reducing the share of public debt in GDP is due to the country's smaller needs for borrowing and faster GDP growth. Observing the currency structure of the public debt (December 2018, preliminary), about 26% of the public debt of the RS is in dollars. According to the structure of interest rates, about 18% of the public debt of the RS is at variable interest rates)[36].





The Public Debt Administration of the Republic of Serbia, during 2018 (by the end of December), increased the value of emissions of dinar treasury securities on the domestic financial market (around RSD 18.4 billion[37]) while lowering the value of euro denominated securities in relation to the end of 2017.

Foreign debt

According to the NBS data at the end of September 2018, the total external debt of public and private sectors, amounted to EUR 26.5[38] billion and compared to September 2017, it increased by EUR 508.4 million. External debt of the private sector increased by EUR 1,166.2 million in the observed period, while the public sector debt was reduced by EUR 657.8 million. The external solvency indicator, presented as a ratio between the amount of external debt and the value of exports of goods and services, slightly improved at the end of September 2018, amounting to 128.0%, (beginning of the year 132.5%)[39].

34 MoF, Current Macroeconomic Trends, January 2019
35 MoF, Macroeconomic and fiscal data, January 2019
36 Public Debt Administration of RS, Monthly report, December 2018
37 Public Debt Administration of RS, Monthly report, December 2018
38 NBS, foreign debt of RS towards debtors as of 31 December 2018
39 NBS, Indicators of Serbia external position as of 8 January 2019

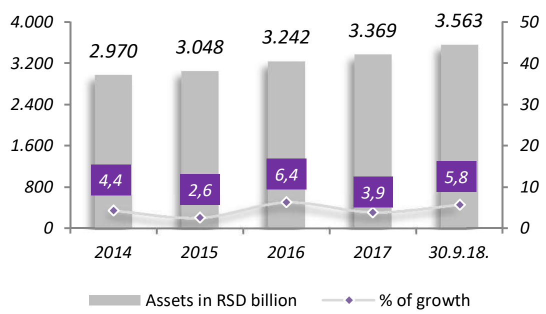
3. *BANKING SECTOR OF THE REPUBLIC OF SERBIA AND FINANCIAL POSITION OF THE BANK*

3.1. Banking sector

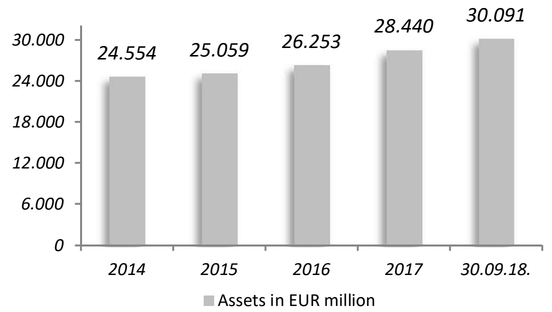
At the end of September 2018, the banking sector of the Republic of Serbia consisted of 28 banks with 23,067 employees[40], total assets of RSD 3,563.3 billion and total capital of RSD 681.6 billion. The ten largest banks with balance sheet assets account for 78.6% of total sector assets.

During the first nine months of 2018, the balance sheet assets of the banking sector increased by 5.8% compared to the end of the previous year, while total capital increased by 2.2%.

MOVEMENT OF THE BANKING SECTOR

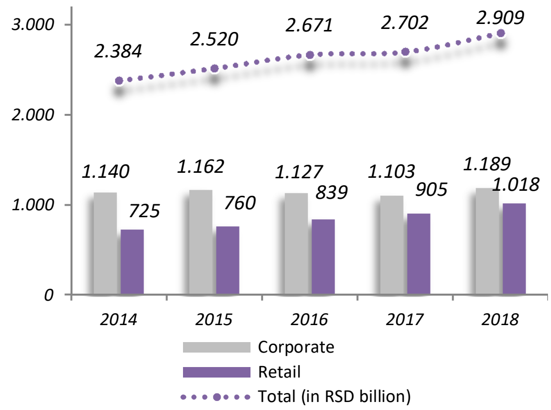


MOVEMENT OF THE BANKING SECTOR



During the first three quarters of 2018, the trend of decreasing and stabilizing interest rates on dinar newly approved loans to the corporate and retail clients continued. The aforementioned trend contributed to the growth of total loans (8.0% yoy in November 2018), and it was mainly driven by growth of loans to retail clients (12.2%[41]). During the aforementioned period, the banking sector had significant liquidity surpluses, bearing in mind the reference liquidity ratios. The surplus of liquid assets of the banking sector is mainly marketed in government securities and repo transactions of the NBS. At the end of September 2018, the balance of banks' investments in repo transactions totalled RSD 40.0 billion[42], while in June it amounted to RSD 65.0 billion. The total value of government securities portfolio at the end of September amounted to RSD 668.9 billion. The share of securities amounted to 19.4% of the assets of the banking sector, while cash and funds with the Central Bank amounted to 13.4% (as of September 30, 2018).

CREDIT ACTIVITY OF THE SECTOR



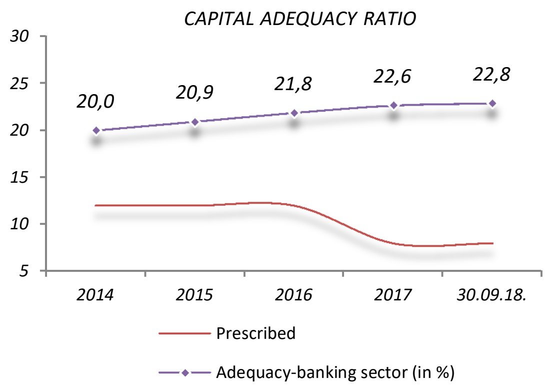
The ratio of gross NPLs to total gross loans at the end of September 2018 amounted to 6.4% while at the end of December 2017 amounted to 9.8%.[43] Observed by sector structure, the largest part of gross NPLs still relates to companies (43%). At the end of September 2018, the gross NPL coverage with calculated provision for estimated losses on balance sheet positions amounted to 153.3%. Allowances for impairment of NPLs cover 61.3% of gross NPLs[44]. Gross NPLs to the retail sector at the end of the third quarter of 2018 amounted to RSD 48.4 billion and were reduced by 0.1% compared to the second quarter of the same year. Gross NPL loans to companies amounted to RSD 57.0 billion and were lower by 30.2% compared to the previous quarter.[45]

Retail *FX savings* tended to grow steadily in the observed year. At the end of 2018 reached EUR 9.6 billion, an increase of 6.3% compared to 2017. Total retail savings amounted to EUR 10.1 billion or had tendency of growth in the amount of 7.0% compared to 2017.

The average value of the *capital adequacy* ratio of the banking sector as at 30 September 2018 was 22.8%[46]. The stated value, in relation to the new

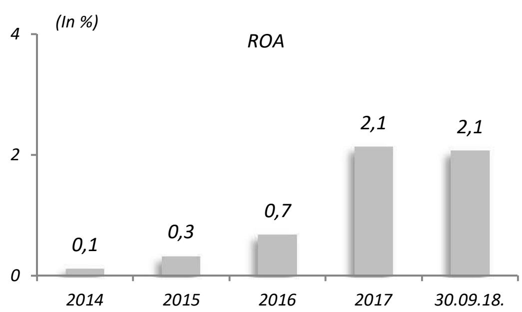
40 NBS, Report for the third quarter of 2018
41 NBS, Macroeconomic trends in Serbia, January 2018
42 NBS, Report for the third quarter of 2018
43 NBS, Report for the third quarter of 2018
44 NBS, Report for the third quarter of 2018
45 NBS, Report for the third quarter of 2018
46 NBS, Report for the third quarter of 2018

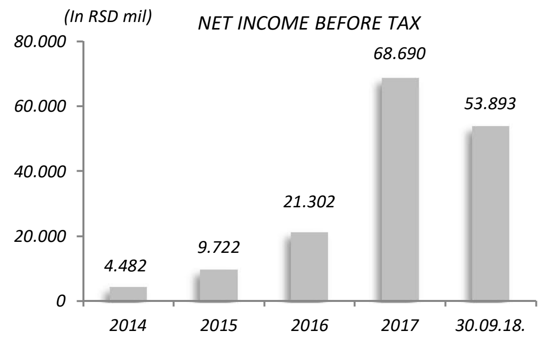
prescribed minimum ratio of 8.0%, means that the banking sector was adequately capitalized. At the end of the third quarter of 2018, the share capital of the banking sector was RSD 400.2 billion.

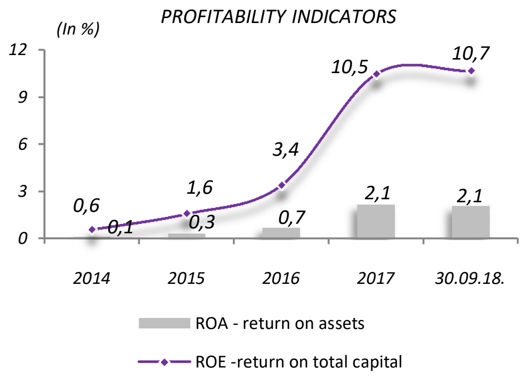


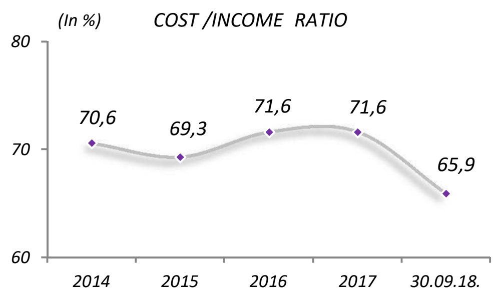
At the end of the third quarter of 2018, the total indebtedness of banks by loan operations abroad, amounted to RSD 192.3 billion and increased by 4.0% compared to the previous quarter[47].

In the first three quarters of 2018, banks recorded profit growth. At the end of the third quarter of 2018, a positive net financial result, before taxation, was realized in the amount of RSD 53.9 billion. In the observed period, 24 banks operated positively with a total profit of RSD 55.5 billion, while four banks operated with a total loss of RSD 1.6 billion. The most important factor for the growth of the net profit of the banking sector was the decrease in net credit losses in relation to the same period of 2017. The net impairment loss on financial assets not valued at fair value through profit and loss account at the end of the third quarter of 2018 was positive (RSD 0.1 billion) in contrast to net losses in the same quarter of 2017.









Cost/Income ratio continued the downward trend after the increase in 2016, and amounted to 65.9% (as of 30 September 2018).

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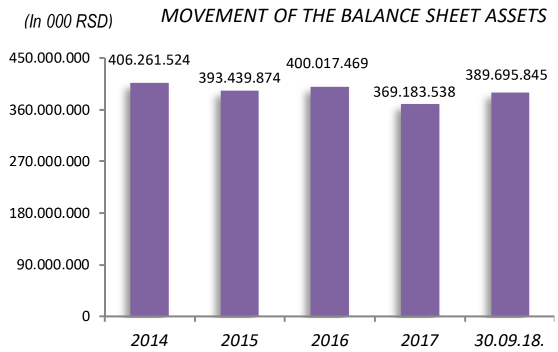
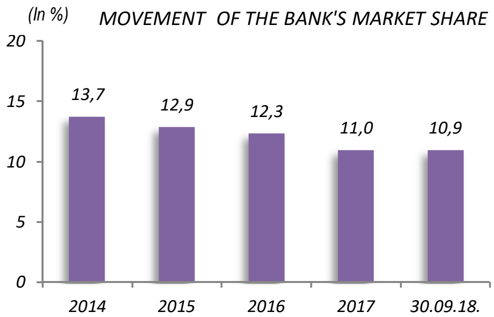
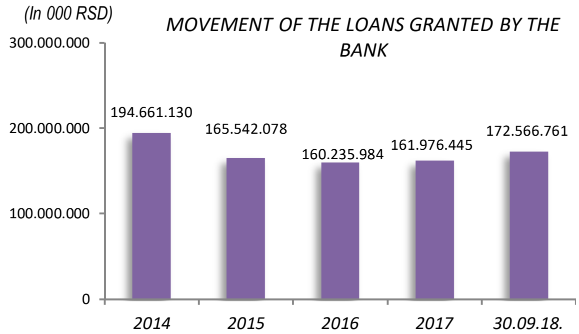
3.2. Financial position of the Bank compared to banking sector

The Bank had the balance sheet assets of RSD 389,695.8 million, as of 30 September 2018 took 10.9% of the banking sector, which represents the third position, according to this parameter.



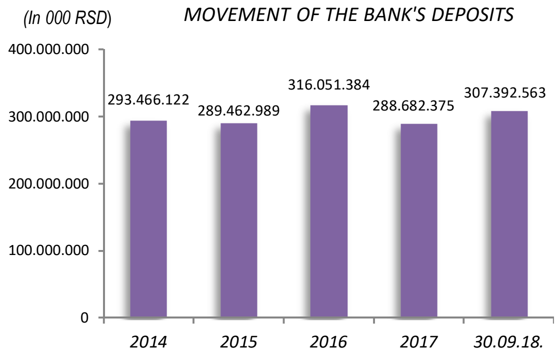


Loans and receivables of the Bank as at 30 September 2017 amounted to RSD 186,550.7 million, accounting for 8.3% of the market share. At the end of 2017 the Bank had 8.7% share in the banking sector with recorded amount of the mentioned positions RSD 183,441.2 million.



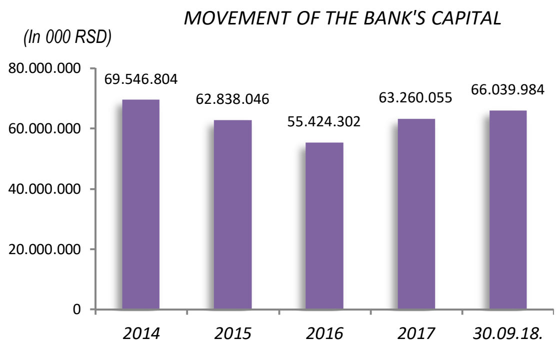
Note: Due to comparability with previous years, the graph shows the Bank's loans without other placements and receivables

The share of deposits and other liabilities of the Bank in total deposits of the banking sector amounted to 11.2% as of 30 September 2018 (RSD 311,525.9 million), and at the end of 2017, 11.4% (RSD 297,004.1 million).



Note: Due to comparability with previous years, the graph shows the Bank's deposits without other liabilities and credit lines

Observing the position of total capital, the Bank increased its share in the banking sector from 9.5% (RSD 63,260.1 million at the end of 2017) to 9.7% of the banking market as of 30 September 2018 (RSD 66,040.0 million).



4. ORGANISATIONAL STRUCTURE AND BODIES OF THE BANK

4.1. The Bank�s Board of Directors

The Bank's Board of Directors was established in accordance with the Law on Banks and the Agreement between the shareholders – the Republic of Serbia and a group of international financial institutions (EBRD, IFC, DEG, and SwedFund) and consists of nine members, including the chairperson, three of which are independent members. The members of the Board of Directors of the Bank are appointed by the Shareholders Assembly of the Bank for a period of four years.

The responsibilities of the Bank's Board of Directors are defined in Article 73 of the Law on Banks and Article 27 of the Bank's Articles of Association. The members of the Board of Directors of the Bank on 31 December 2018 were as follows:

FIRST NAME AND FAMILY NAME	SHAREHOLDER / MEMBER INDIPENDENT OF THE BANK	TITLE
Mila Korugić Milošević	Republic of Serbia	Chairperson
Dr. Daniel Pantić	Republic of Serbia	Member
Marija Sokić	Republic of Serbia	Member
Aleksei Germanovich	EBRD	Member
Oleksandr Danyliuk	EBRD	Member
Javed Hamid	IFC	Member
Katarina Šušić	Member independent of the Bank	Member
Goran Knežević	Member independent of the Bank	Member

4.2. Excutive Board of the Bank

The Executive Board consists of the President of the Executive Board, Deputy President of the Executive Board and at least three members.
The term of office of the members of the Bank's Executive Board, including the President and the Deputy President is four years starting from the date of appointment.

Responsibilities of the Executive Board are defined by the Article 76 of the Law on Banks and by the Article 31 of the Bank's Articles of Association.
The members of the Bank's Executive Board as of 31 December 2018 are as follows:

FIRST NAME AND FAMILY NAME	TITLE
Dr. Vladimir Medan	President
Sladjana Jelić	Deputy President
Dragiša Stanojević	Member
Dr. Miroslav Perić	Member
Pavao Marjanović	Member

4.3. Committee for Supervision of Bank's Operations (Audit Committee)

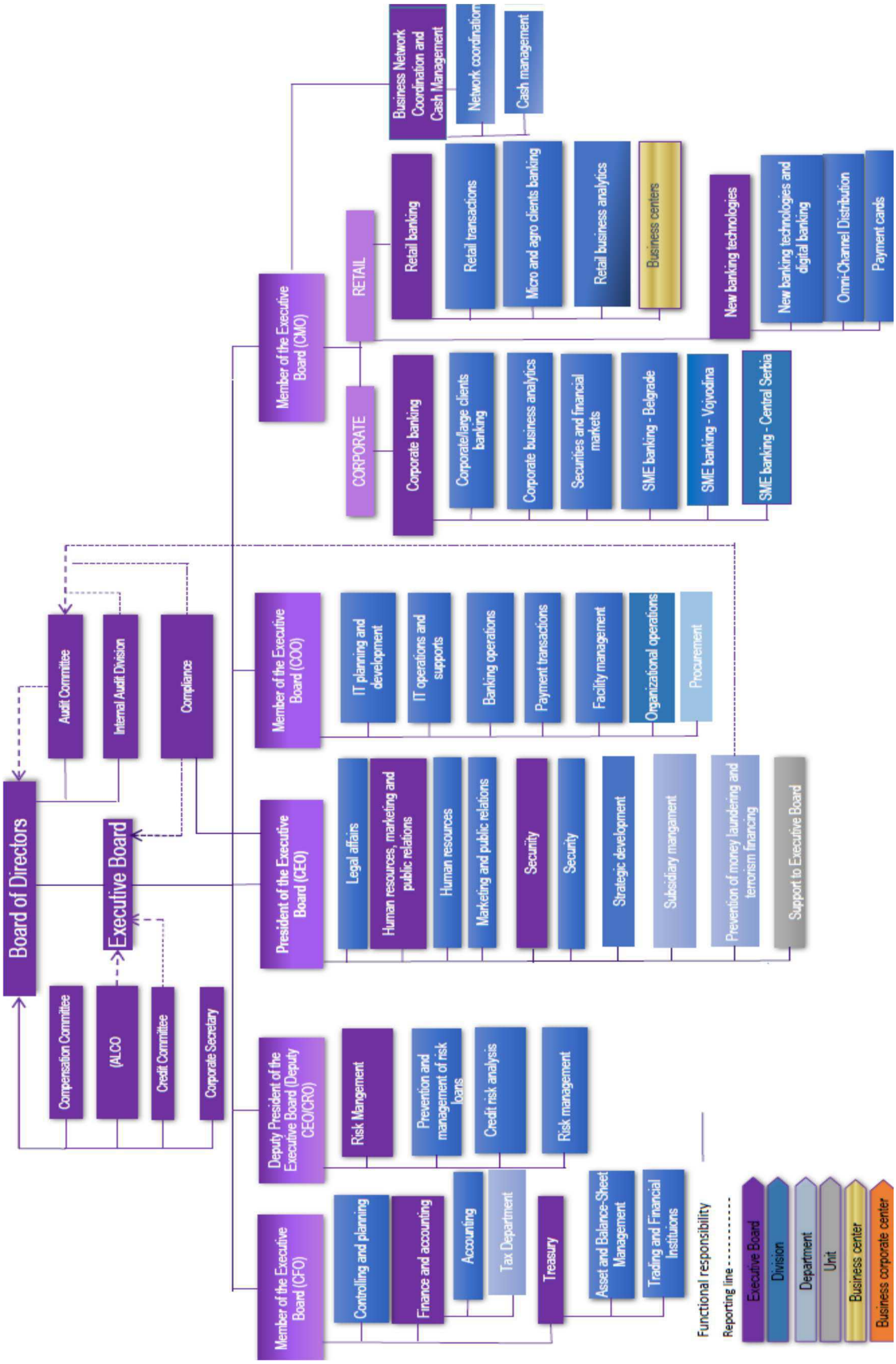
The Committee for Supervision of Bank's Operations consists of three members, two of whom are the members of the Bank's Board of Directors who have appropriate experience in the field of finance. One member of the Committee for Supervision of Operations is the person independent of the Bank. The members of the Committee are appointed for a period of four years.

The duties of the Committee for Supervision of Operations are defined by Article 80 of the Law on Banks and by Article 34 of the Bank's Articles of Association.

The members of the Committee for Supervision of Operations as of 31 December 2018 are as follows:

FIRST NAME AND FAMILY NAME	TITLE
Dr. Daniel Pantić	Predisdent
Javed Hamid	Member
Milena Kovačević	Member

4.4. The Bank's organisational structure



Note: The Bank's organisational chart as of 31 December 2018.

4.5. Regional distribution of the Bank's business network

BUSINESS NETWORK OF THE BANK

	BUSINESS CENTERS	SEAT
1.	BC Belgrade 1	Trg Politike 1, Belgrade
2.	BC Belgrade 2	Trg Politike 1, Belgrade
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar Oslobodjenja 88, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovka Mitrovica	Čika Jovina 11, Kosovska Mitrovica
	DIVISIONS	**SEAT**
1.	Corporate – large clients banking	Svetogorska 42-44, Belgrade
2.	Corporate-SME banking - Vojvodina	Bulevar Oslobodjenja 88, Novi Sad
3.	Corporate-SME banking - Belgrade	Svetogorska 42-44, Belgrade
4.	Corporate-SME banking – Central Serbia	Svetogorska 42-44, Belgrade

After 2017 and the first major reorganisation of the business network, after analysing the effects of realised changes in business operation, the Bank made additional changes in the business network at the beginning of 2018. Changes in the banking sector, the strengthening of competition among banks, the emergence of new banks, services and products imposed the need to further restructure the business network of the Bank in order to create an efficient network that will in the long run provide an adequate contribution to the Bank's sustainable and profitable operations.

In March 2018, a new change of organisation was carried out within the business function of Corporate. The existing business organisation with branched sale within Business Corporative Centers and centralised credit analysis have proven to be ineffective, with a process that goes on too long.

Instead of Business Corporative Centers, the Corporate - Small and Medium-Sezed Enterprise Banking Divisions in Belgrade, Central Serbia and Vojvodina were formed. Changing the organisation of work in the business function of the Corporate was made in order to increase the efficiency, effectiveness and productivity of the business function. The change included a functional merger of sales and credit analysis within the same organisational form (Corporate – SME Banking Divisions Belgrade, Central Serbia and Vojvodina).

The operational work of the credit analysis thus approached the sales function at the local level, as the dislocation of sales and credit analysis in the existing organisation showed a lot of restrictions and slowdowns in operational work. The number of steps/levels of operational work and decision-making in the business function was reduced (instead of two organisational forms, only one operatively completes the work and processes proposals to the Risk Management Division and further to the competent body for decision-making). Efficient, direct communication with the highest management within the business function was provided due to the reduced number of organisational forms participating in the process of approving the placements.

Organising work through teams of salespersons, analysts and assistants in organisational forms in charge of small and medium-sized client banking has contributed to the greater synergy and motivation of all team members to work more efficiently and faster in order to achieve a common goal of the team.

Due to the fact that a large number of clients of the Bank still want a traditional service, that is, they want a personal relationship with the Bank and the employees in the sub-branches, the branched business network has been retained. In 2018, the Bank carried out business in the retail segment in 202 sub-branches, which makes us the market leader in the coverage of the same and accessibility to clients. 271 ATMs and around 13,600 POS terminals were available to clients, and we were also one of the leaders in the market. The Bank continued to improve customer experience by improving the appearance of sub-branches, moving to new premises, adapting working hours, etc.

5. BANK'S BRANCHES AND SUBSIDIARIES

In accordance with the new organisation of the business network, which has been fully implemented since March 2018, the Bank performs its business activities through a network of Business Centers, one branch and a network of sub-branches, whose number changes and adapts to the market needs of the Corporate – SME Banking Division, Corporate – Large Clients Banking Division. Since March 2018 business operations have been performed at the Seat of the Bank in Belgrade, 6 business centers (for retail banking), 202 sub-branches and Kosovska Mitrovica Branch (organised for operations in the territory of Kosovo and Metohija), 3 divisions for corporate – SME banking (Belgrade, Central Serbia, Vojvodina, for corporate clients) and Corporate – Large Clients Banking Division – Belgrade.

The Bank has three subsidiaries which make the Group of Komercijalna Banka ad and they are as follows:

1. Komercijalna Banka ad, Budva in the Republic of Montenegro (100% ownership),
2. Komercijalna Banka ad, Banja Luka, Bosnia and Herzegovina (99.998% ownerswhip) and
3. KomBank INVEST ad, Belgrade, investment fund management company (IFMC) (100% ownership).

Komercijalna banka ad Banja Luka
-159 employees,
-18 organisational units
(9 branches and 9 agencies).

Komercijalna banka ad Podgorica
-146 employees,
-10 organisational units
(9 branches and 1 sub-branches).

KomBank Invest ad Beograd
-5 employees.

5.1. Important transactions with related persons

The total exposure to persons related to the Bank as at 31 December 2018 amounted to RSD 624.1 million, which compared to the regulatory capital of RSD 57,039.7 million accounted for 1.1% (the maximum value of total placements to all persons related with the Bank according to the Law on Banks, is 25% of the Bank's capital).
The largest part of the exposure to persons related to the Bank (in accordance with the methodology of the National Bank of Serbia regarding presentation of exposure to persons related to the Bank) as of 31 December 2018 was the amount of RSD 459.9 million or 0.8% of regulatory capital of the Bank. The data stated relate to placements to KomBank Invest ad Belgrade.
Pursuant to Article 37 of the Law on Banks, persons related to the Bank did not approve loans under conditions that were more favourable than conditions approved to other persons, unrelated to the Bank, or the persons not being employed by the Bank.
Further review of the persons related to the Bank can be found in Notes to the financial statements.

6. FINACIAL POSITION AND BUSINESS RESULTS OF THE BANK IN 2018

6.1. Introduction

At the beginning of 2018 additional adjustment of the Bank's business network was made to the current market needs and effects of the previous reorganisation from 2017. In the past year, great attention was paid to managing risks in the business operation, and especially credit risk in order to achieve the highest quality loan portfolio.
The policy of the Bank's management to allocate a significant part of the realised profit into reserves in previous years, enabled the safety of operations and the safety of the Bank's share capital.
Realised net income from interest and fees in 2018 were higher than at the end of 2017. The results of the Bank's operations, also in 2018, were influenced by the NBS with the Decision on accounting write-off of balance sheet assets that has been applied since September 2017. The decision stipulates that part of the balance sheet assets of low level of collectability be transferred to the off-balance sheet records of the Bank. Transfes to off-balance sheet records refers to the non-performing loans, when the calculated amount of loan impairment, which the bank recorded in favour of allowance for impairment, comes to 100% of its gross book value.

Balance sheet total

At the end of 2018, the balance sheet total of the Bank (net assets) amounted to RSD 401,166.0 million (EUR 3.4 billion), representing an increase of 8.7% in relation to the end of 2017. The focus of the Bank's operations continues on growth of business and profitability, maintenance and further improvement of the loan portfolio quality, finding new sources of income and more efficient use of available funds.

Funding sources

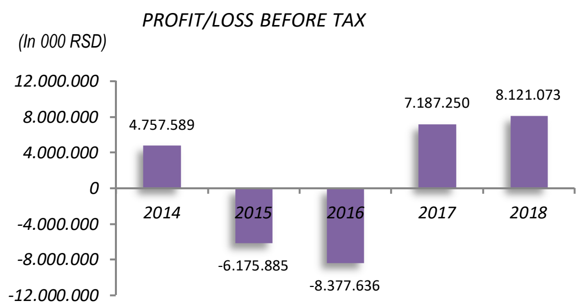
During 2018, as in previous years, the stable growth of foreign currency savings of the retail clients of about EUR 68.4 million continued, which is the main funding source of the Bank. Deposits from legal entities increased by RSD 8,508.0 million compared to the end of 2017 (the amount of deposits of legal persons was adjusted at the beginning of 2018 due to the transfer of microclients’ deposits to the business line). Deposits from banks and other financial institutions increased by RSD 2,914.2 million.
During 2018, the Bank returned foreign creditors around EUR 39.0 million. The amount of liabilities of the Bank based on received credit lines amounted to RSD 2,818.0 million and compared to the end of 2017 it was reduced by RSD 4,574.3 million.
At the end of 2018, the Bank had no subordinated liabilities in the balance sheet.

Placements

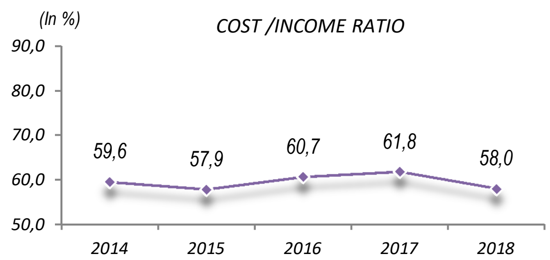
During 2018, the Bank recorded growth in placements to the corporate sector in the amount of RSD 3,538.7 million. In the segment of retail banking, growth of placements of RSD 10,321.4 million was realised. Housing loans dominated the structure of loans. The Bank placed a significant part of its liquid assets in securities. At the end of the previous year, RSD 133,177.6 million were placed in securities, which was an increase of RSD 15,888.8 million compared to the end of 2017.

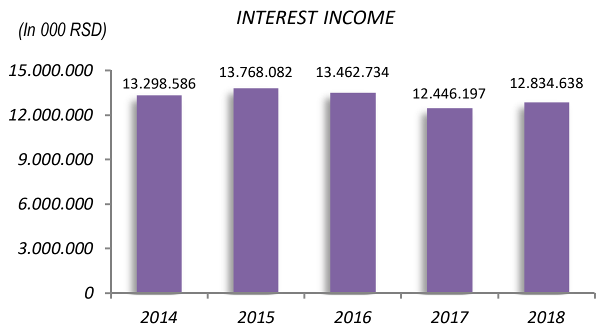
Profitability

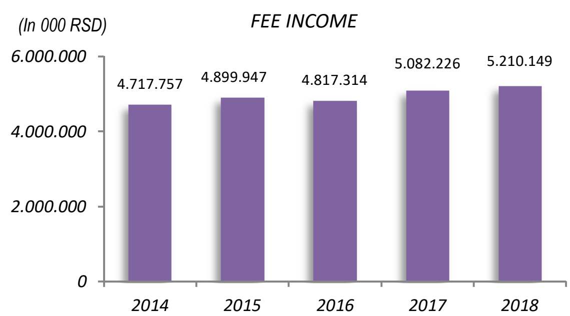
At the end of 2018, the Bank achieved a positive result, a profit before tax of RSD 8,121.1 million, which was an increase of RSD 933.8 million compared to 2017.



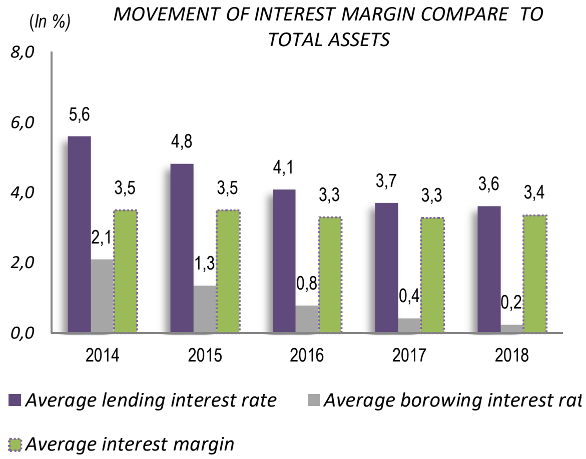
With a decrease in the Cost/Income ratio (58.0% at the end of 2018 compared to 61.8% at the end of 2017), there was also a net income of impairment of financial assets at fair value during 2018 (RSD 9.5 million).



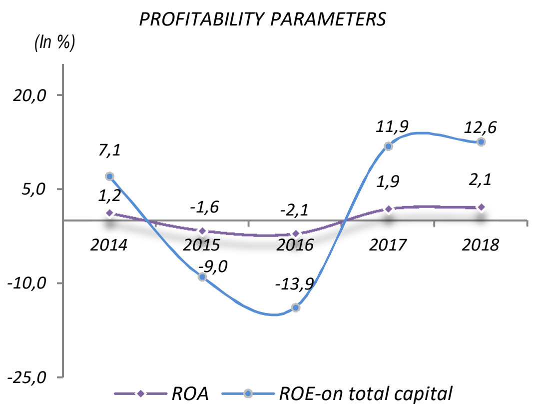




Interest income, in 2018, grew by 3.1% in relation to the same period of 2017. At the same time, the fee income increased by 2.5%.



During 2018 there was stabilisation of both lending and borowing interest rates. An interest margin of 3.4% was achieved, which was above the interest margin in the adopted business plan for 2018 (3.3%).

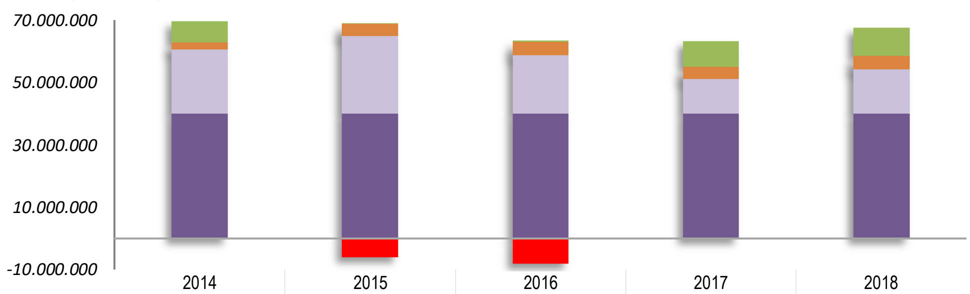


Bank's capital

Changes in capital over the period from 2014 to 2018:

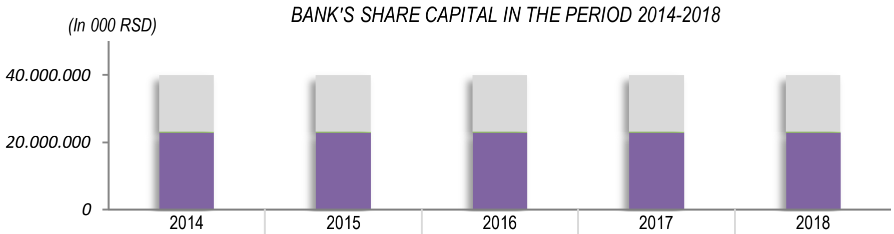
DESCRIPTION	2014	2015	2016	2017	2018
BANK'S CAPITAL (IN RSD 000)					
Share capital	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550
Reserves from protif	20.635.440	24.935.440	18.791.828	11.061.535	14.223.535
Revaluation reserves	2.120.959	3.749.864	4.311.409	4.026.721	4.254.737
Retained earnings	6.755.855	179.550	349.698	8.137.249	9.047.691
Loss	-	6.061.358	8.063.183	-	-
TOTAL CAPITAL	69.546.804	62.838.046	55.424.302	63.260.055	67.560.513

BANK'S TOTAL CAPITAL OVER THE PERIOD 2014-2018



	2014	2015	2016	2017	2018
LOSS		-6.061.358	-8.063.183		
RETAINED EARNINGS	6.755.855	179.550	349.698	8.137.249	9.047.691
REVALUATION RESERVES	2.120.959	3.749.864	4.311.409	4.026.721	4.254.737
RESERVES FROM PROFIT	20.635.440	24.935.440	18.791.828	11.061.535	14.223.535
SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550
CHANGE IN CAPITAL (IN %)	7%	-10%	-12%	14%	7%
TOTAL CAPITAL	69.546.804	62.838.046	55.424.302	63.260.055	67.560.513

The total capital of the Bank at the end of 2018 was RSD 67,560.5 million and it increased by 6.8% compared to the end of 2017. In the period from 2011 to 2018, the total capital of the Bank increased by 52.6%. In the same period, share capital increased by 40.7% or RSD 11,572.0 million. So far, the Bank has increased share capital based on two issues of preference convertible shares (in 2010, RSD 11,400 million and in 2012, RSD 11,572 million). For a long time, the Bank allocated a significant part of the realised profit to provisions for estimated losses in order to maintain business safety and capital adequacy, ie to protect share capital from possible losses and to increase capital. In the past five years, the Bank firstly increased a total of reserves in order to partially use them to cover the losses recorded at the end of 2015 and 2016, from the realised profit and on the basis of revaluation. Reserves from profit at the end of 2018 increased in comparison with 2017 by RSD 3,162.0 million. Together with revaluation reserves, total reserves of the Bank increased by RSD 3,390.0 million compared to 2017.



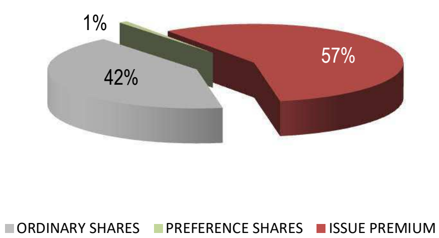
	2014	2015	2016	2017	2018
ORDINARY SHARES	16.817.956	16.817.956	16.817.956	16.817.956	16.817.956
PREFERENCE SHARES	373.510	373.510	373.510	373.510	373.510
PREFERENCE CONVERTIBLE SHARES					
ISSUE PREMIUM	22.843.084	22.843.084	22.843.084	22.843.084	22.843.084
TOTAL SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550

The ordinary (regular) shares of the Bank have been traded on the Belgrade Stock Exchange Standard listing since 2010. During 2014, the conversion of preference convertible shares into ordinary shares was made and since then there have been no changes in the share capital structure. As at 31 December 2018, the Bank had 16,817,956 ordinary shares (regular) and 373,510 preference shares of RSD 1,000.00 value per share.

The Bank's Shareholders as of 31 December 2018 are as follows:

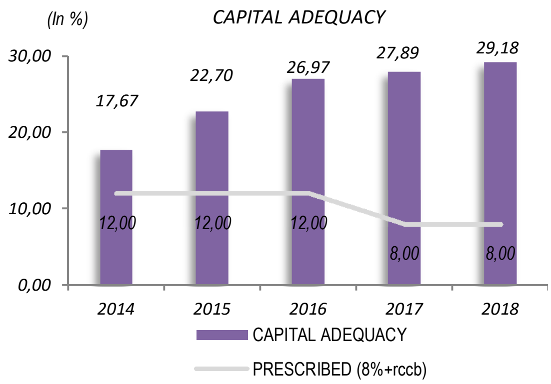
SHAREHOLDERS	ORDINARY SHARES	% STAKE	PREFERENCE SHARES	% STAKE	TOTAL SHARES	% STAKE IN SHARE CAPITAL
Republic of Serbia	7.022.166	41,8	-	0,00	7.022.166	40,8
EBRD	4.109.440	24,4	-	0,00	4.109.440	23,9
IFC	1.706.810	10,1	-	0,00	1.706.810	9,9
DEG	772.850	4,6	-	0,00	772.850	4,5
SWEDFUND	386.420	2,3	-	0,00	386.420	2,2
OTHER	2.820.270	16,8	373.510	100,00	3.193.780	18,6
TOTAL	16.817.956	100,0	373.510	100,0	17.191.466	100,0

SHARE CAPITAL STRUCTURE AS OF 31.12.2018.



Capital adequacy

The Bank's capital adequacy ratio at the end of 2018, despite still considerable provisioning, came to 27.18%, which is the best evidence that the Bank managed to maintain the adequate capitalisation. During 2018, the Bank also met all the parameters of operations prescribed by the Law on Banks and discharged all liabilities, which is a reliable indicator of sound, stable and safe business operations.



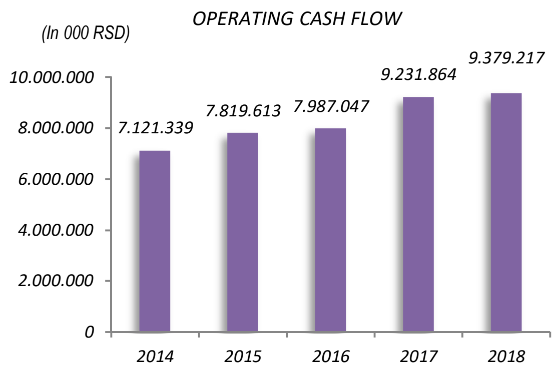
Performance indicators prescribed by law

No.	DESCRIPTION	PRESCRIBED	2018	2017	2016	2015	2014
1.	CAPITAL ADEQUACY RATIO(CAPITAL / RISK ASSETS); * REQUIREMENTS FOR COMBINED CAPITAL BUFFER	min 8% +rccb*	29,18%	27,89%	26,97%	22,70%	17,67%
2.	INDICATOR OF INVESTING IN ENTITIES THAT ARE NOT PART OF THE FINANCIAL SECTOR AND FIXED ASSETS	max 60%	13,18%	14,96%	17,47%	23,13%	27,60%
3.	THE BANK'S LARGE EXPOSURE INDICATOR	max 400%	39,77%	34,96%	38,48%	79,76%	160,59%
4.	FX RISK RATIO	max 20%	1,87%	4,40%	2,96%	10,60%	2,90%
5.	LIQUIDITY RATIO (monthly, the last day in a month)	min 0,8	3,86	4,30	2,86	2,73	2,84

Note: In accordance with the NBS regulations, the Bank calculates a buffer for the preservation of capital, a capital buffer for systemically significant banks, and capital buffer for structural systemic risk.

Operating cash flow

At the end of 2018, operating cash flow, compared to the same period of 2017, was higher by RSD 147.4 million (1.6% increase). In the observed period, the inflows grew by RSD 529.5 million or 7.9%, while interest income recorded a decrease of RSD 1,552.4 million or 10.0%. The reason for this can be found in reduction of the lending interest rates. On the side of the cash outflow from operating activities, interest payments were realised at a lower level by RSD 1,130.3 million.



Description of changes in business policies of the company

During 2018, the Bank did not make any changes in the Business Policy document. Business Policy of the Bank was adopted at the Shareholders Assembly of the Bank on 26 January 2012.

The business policy specifies the basic principles of operation and the tasks the Bank shall perform in order to achieve business results and priorities specified in the applicable Strategy and Business Plan, based on:

- The Bank's position in the financial market and clients' trust,
- Projections of basic parameters of macroeconomic policy and
- Development objectives of the Bank.

The Bank's business policy is also harmonized with the Risk Management Strategy and the Capital Management Strategy, as well as the policies for managing individual risks.

The Bank operates independently, according to market principles, applying the principles of liquidity, profitability and security, while respecting laws, other regulations and general principles of banking operations in achieving its objectives in a socially responsible manner, in accordance with the basic values and business ethics.

Corporate governance rules

The Bank's corporate governance rules are based on appropriate legal regulations (primarily the Law on Banks and Law on Companies).

The competencies and powers of all Bank's bodies (Shareholders Assembly, Board of Directors, Executive Board, Audit Committee, Asset-Liability Committee (ALCO), Credit Committee) are based on the relevant legal regulations and defined by internal acts (Memorandum on Association, Articles of Association of the Bank, rules of procedure of the Bank's bodies and other internal acts).

In accordance with the Decision of the Bank's Executive Board No. 8373 dated 9 April 2013, the Bank applies in its operation the Code of Corporate Governance of the Serbian Chamber of Commerce and Industry ("Official Gazette of the Republic of Serbia", No. 99/2012), adopted by the Assembly of the Serbian Chamber of Commerce and Industry.

Corporate governance rules have been implemented through internal acts of the Bank and there are no deviations in their application.

The Code of Corporate Governance has established the principles of corporate practice which is abided by the holders of the Bank's corporate governance. The goal of the Code is to introduce good business practices in the field of corporate governance, the equal impact of all interested parties, existing and potential shareholders, employees, clients, bodies of the Bank, state etc. The ultimate goal is to ensure the long-term and sustainable development of the Bank.

The text of the Corporate Governance Code is publicly available on the web site of the Serbian Chamber of Commerce and Industry (www.pks.rs/PoslovnoOkruzenje.aspx?id=1412&p=3) as well as on the website of the Bank (newdev.kombank.com/corporate-governance).

Project Management and Project Portfolio Management

In 2018, a total of 12 projects from the project portfolio were realised with the plan to complete the additional 5 projects in the first quarter of 2019.

In line with the slogan "meni najbliža" (the closest place to me), the focus of the project activities in 2018 was to further improve the user experience, primarily through the digitization of operations, optimization of the process in order to better understand the needs of clients and provide the right service at the right time. In the coming period it is planned to pay special attention to the introduction of the concept of "non-paper sub-branch" and in this sense the "Proof of Concept" has already been realised.

From the project portfolio for 2018 we would like to to highlight the following projects:

- CRM (Customer relationship management) – by introducing CRM software with RTMD (real-time decision-making) functionality, the Bank persistently intends to recognize clients' needs in a timely manner and respond adequately through the creation of personalized products.

- Credit products on the digital channel in line with the trend of digitization, expanded the range of services provided by the Bank aimed at meeting the needs of users (younger users) using the Internet through a quick and easy process of applying via WEB. Thus, the Bank completed the services through WEB, improved and made the process of applying for loans more efficient and reduced the waiting in line at counters.

- MBanka and new functionalities of eBanka for legal entities - through implementation of this project, Komercijalna Banka was among the first in the market to provide "multibank" mobile banking for the segment of corporate and SME banking. The application is available for Android and IOS devices, and provides access to statements and transactions in all accounts in all banks where the user has an opened account on that mobile phone, signing and transmitting dinar and foreign currency transactions on the mobile phone. Additional functionalities obtained by the implementation of the project are eFacture (eInvoices) for micro clients, eRasknjižavanje plata (eDerocognition of salaries), eRazmena dokumenata (eExchange of documents) as well as ordering certified copies.

During 2018 a special attention was paid to the regulatory project:

- Instant payment – By completing a very complex project, the Bank complied with the regulatory obligation prescribed by the NBS, thus establishing a payment system for instant payments that enables the non-cash transfer of cash funds 24/7/365 in almost real time, regardless of the channel that initiated the payment transaction (counter, eBank, mBank). The project has established the infrastructure for the next phase where it will be provided instant payment at the trader's point of sale which will represent an alternative way of non-cash payment to traders.

Other important completed projects:

- Centralisation of archives - The goal of the project of centralising archival depots in their own premises is to integrate archival depots to facilitate archival management, on the one hand, and reduce rental costs on the other. A complete archival material management process in the coming period will be digitized at the level of the archive unit.

- Electronic registry – implementing the electronic registry project, the Bank has started to implement eDokument within the organisation with the ultimate goal of a fully electronic movement of documents within the organisation.

- Improving Server and Virtual Infrastructure - New server infrastructure was installed in the primary Data Center of the Bank, with the improvement of virtual infrastructure, whereby the Bank switched to technologically advanced devices that contribute to better performance and higher capacities of the Bank's information system.

- Implementation of ISO20000-1 standard – In accordance with the Bank's determination to continue its path of service-oriented organisation with clearly defined IT processes, in 2018 all requirements of the ISO20000-1 standard were implemented and IT Services Management System was established. The bank was successfully certified according to the ISO20000-1 standard by the reputable certification firm in August 2018.

6.2. Corporate banking

Market-key tendencies

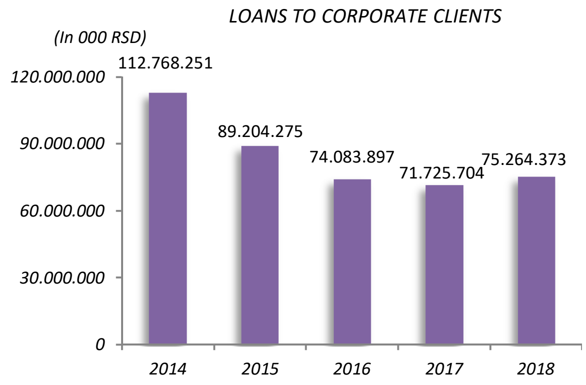
In 2018, the trend of lowering the dinar interest rates continued despite the stabilization of the reference interest rate of the National Bank of Serbia (from April 2018), as well as the reduction of interest rates on foreign currency loans.

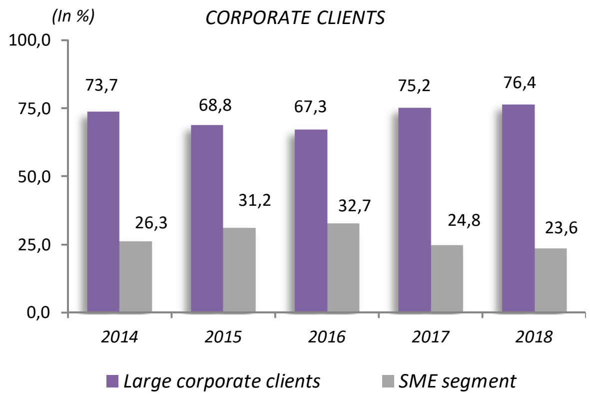
The standards for banks for newly approved loans to corporate clients, which were relaxed in 2017, remained unchanged in 2018, primarily for small and medium enterprises, and to a lesser extent for large enterprises. Observed by maturity and currency, easing of standards is present in short-term and long-term dinar lending to corporate clients, as well as short-term lending to the corporate clients with currency clause. Banks also show greater willingness to take risks when lending to corporate clients (especially in the part of collateralization of loans).

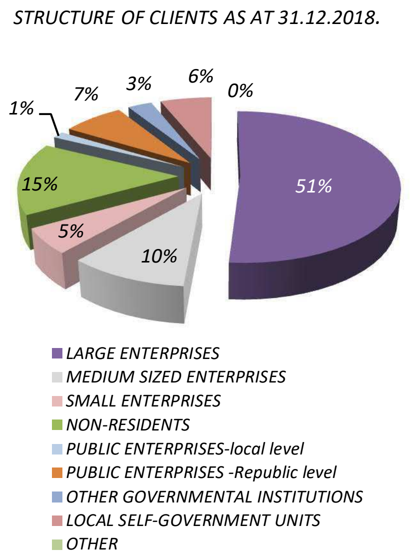
In 2018, after the initial fall, the level of loans to corporate clients stabilized. At the level of the banking sector, the level of gross loans was higher than at the end of 2017 (total companies and public enterprises grew by 3.4%, or RSD 37.1 billion).[48]

Loans[49] - the Bank' business operation

Realisation of newly approved loans in 2018 was lower by RSD 0.7 billion compared to the same period in 2017 (RSD 6.5 billion lower in the segment of Large Corporate Clients and RSD 5.8 billion higher in the SME segment). In the Bank's portfolio, the growth of large corporate clients increased from 75.2% (at the end of 2017) to 76.4%.







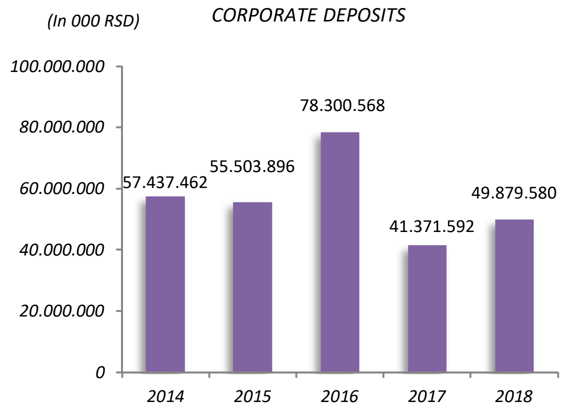
The interest rate on loans indexed in EUR was still lower in relation to loans in dinars, which in conditions of stable exchange rate was determining the market factor for higher demand for loans with a currency clause in relation to dinar loans. Accordingly, the share of dinar loans in the portfolio at the end of 2018 reached the lowest level of only 7.8%.

48 NBS, Consolidated balance of the banking sector, November 2018.
49 Postition of the loans granted exclude other placements

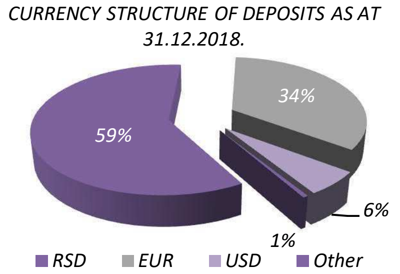
As regards competition in 2018, the most active were Banca Intesa a.d. Belgrade, UniCredit Banka Serbia a.d. Belgrade, Raiffeisen Banka a.d. Belgrade, Societe Generale Banka a.d. Belgrade, with occasional shares on the market by the following banks: ProCredit a.d. Belgrade and Erste Banka a.d. Novi Sad. A more flexible approach (interest rates, maturities, required security instruments) was noted in all competitors when approving loans.

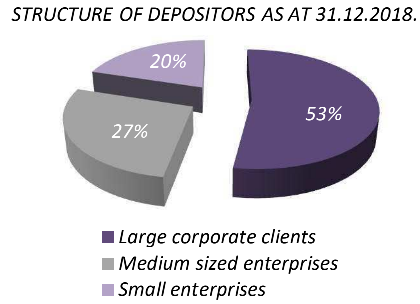
Deposits [50]

High share of transaction deposits of 74% of total corporate deposits resulted in lower interest expense and had a positive impact on the Bank's business performance. The amount of corporate deposits in 2018 was influenced by the Decision of the Bank for the microclients' deposits to be recorded in the business line of the retail clients as of 1 January 2018.

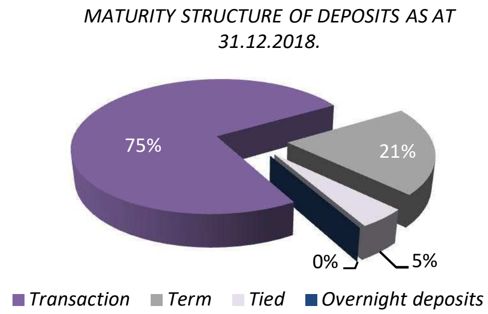


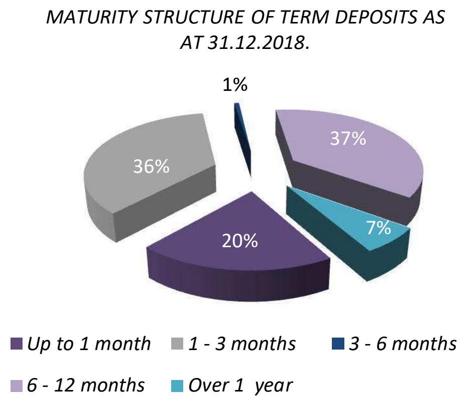
Note: At the end of 2017 RSD 11.2 billion deposits of micro clients were transferred from the corporate to retail segment due to which the data from the previous annual report differs from the data from previous annual reports; the amount of the corporate deposits at the end of 2016 was influenced by one individual deposit.





Note: The structure of depositors is presented based on internal client segmentation.





50 Position of deposits excludes other liabilities and funds acquired through credit lines

6.3. Retail banking

Retail banking achieved the planned goals in 2018, and through the introduction of new products, the improvement of procedures and technological solutions recorded the best results in this decade.

Loans

The focus was on the growth of loan realisation, realisation of net income and the preservation of market share. In 2018, RSD 45.2 billion of loans were realised, which was 15% more than in 2017. The growth of retail loans was achieved thanks to the constant innovation of product offers in order to adapt to market demands and improve competitiveness.

Realisation was higher in all segments of business operation in relation to 2017.

The largest increase was realised in **housing loans** (33%), since the current offer was improved in comparison to last year offer and adjusted to the needs of clients. The current offer has been further improved in order to adapt to market conditions. In 2018, the Bank granted subsidized loans to professional military personnel, which gradually increased the lending to this segment of clients. Additionally, and taking into account the trend of fall of interest rates on the market, the Bank has applied a policy of retention of clients in order to preserve the quality and the amount of the portfolio. In 2018, the market share of the Bank was 10.3%.

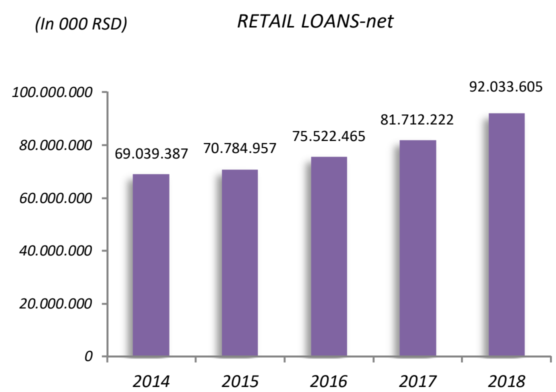
In the segment of **cash loans**, realisation growth was 13%. It is the segment with the most highlighted competition, where the offer is based on large amounts and long deadlines without "solid" collateral or security instruments, with favourable interest rates. Also, the offer is increasingly based on personalized offers for specific client groups, especially for clients with higher income. Considerable attention is paid to loans for pensioners as well, since they make up a significant number of clients. Since the end of the third quarter of 2018, the Bank has got on-line cash loan in its offer, keeping in line with modern trends. As a result of all activities, in 2018, the Bank's market share in the cash loan segment continued to grow and now amounts to 7.5%.

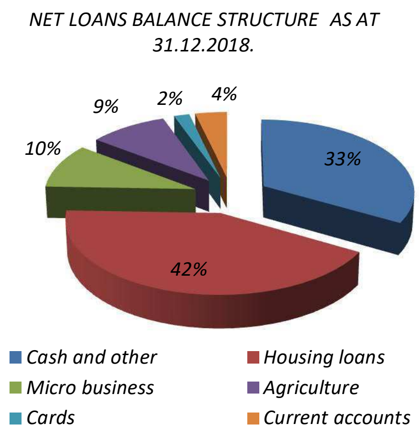
The implementation of **agricultural loans** increased by 13%. With attractive products from the Bank's offer, subsidized loans were also granted in cooperation with the Ministry of Agriculture, Forestry and Water Management, local self-government units and agricultural mechanization dealers. The offer covers all areas of agricultural production irrespective of the size of the farms. In agreement with the Ministry of Agriculture, Forestry and Water Management, the Bank actively participated in the promotion and support of financing of projects from the IPARD funds of the European Union. In 2018, the Bank's market share in the segment of agricultural loans continued and now it amounts to 13.7%.

Increase of realisation of loans in **micro business** amounted to 15%, primarily thanks to regular and specially designed action products which completed our offer. This segment includes entrepreneurs and micro enterprises. In the segment of entrepreneurs in 2018 the market share of the Bank increased and now it is 9.1%.

During 2018, cash loans were mostly realised (share of 52% in total realisation), followed by micro business loans (23%), farmers (13%) and housing loans (12%).

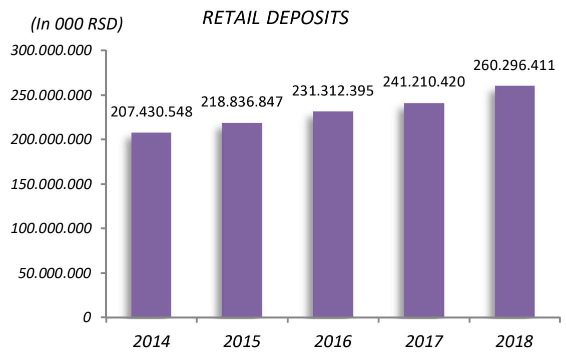
All of the above led to an increase in net balance of placements to retail clients by RSD 10.3 billion in relation to 31 December 2017. In the structure of the net balance, the share of housing loans decreased (42%), while the share of other, more profitable products (58%) increased.



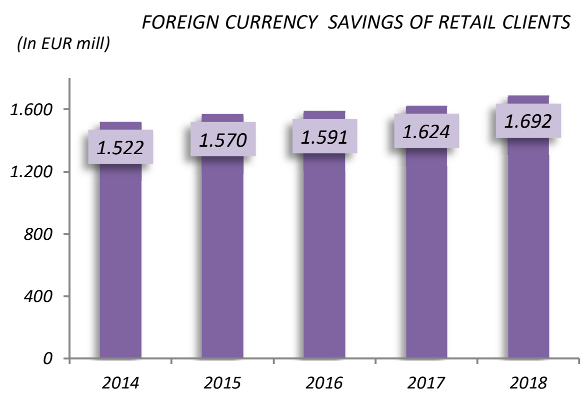


Deposits[51] - business banks

In 2018 retail deposits increased by RSD 19.1 billion or 8%.



In 2018, the increase in total retail foreign currency deposits on the banking market (excluding micro enterprises) of EUR 574 million was achieved, while the Bank maintained a leading market position with an increase of EUR 79 million and share of 18.5%. As regards the classic foreign currency savings of retail clients, the same increased to 68 million euros a year.



** The above shown foreign currency funds exclude dedicated foreign currency accounts (pensioners) and entrepreneurs*

In the foreign currency savings of retail clients, the share of term deposits with maturity of 12 months and more slightly decreased, and it is 33%, and the share of avista savings which is now 63% increased. The savings deposits dominate up to EUR 50,000 (over 99% in the amount of 75%).

After many years of decline, deposit interest rates on foreign currency savings of retail clients had minimum increase (31 December 2017 - 0.25% and 31 Dec. 2018 - 0.26%). In the upcoming period, a slight increase in deposit interest rates is expected. The Bank is still recognized by clients as the most trusted institution, therefore deposits are constantly increasing.

Other products

Activities were carried out on increasing the number of clients in all segments, especially in the most important number of natural persons with regular income over the current account (about 409,000 clients, during the year the number of clients increased by 6,000). These clients represent the core of retail business and are the basis for the growth of credit activity, and in particular for allowed overdrafts on the current account, since they are the most profitable product and are used by every third client. Sets of accounts for retail clients continued to gain market, in 2018, about 93,000 sets of accounts were opened, of which about 12,000 sets for the youngest clients (18-27 years old), which forms the basis for safe business in the future. The number of debit and credit cards has been increased and currently amounts to around 950,000, of which 50% is regularly used.

Sets of accounts for microbusiness introduced in the offer at the end of 2017 experienced a full affirmation in 2018 (about 10,000 clients opened a set account in 2018). Digitalization of business operation continued, a new product "KOM4PAY" was introduced - payment via the Internet for users of electronic banking. Cooperation with RIA Money Transfer has been established.

Business network

We perform business operations in the retail segment in 202 sub-branches, whereby we are the market leader, in the coverage of the same and accessibility to clients. There are 271 ATMs available to clients and around 13,600 POS terminals by which we are also one of the leaders in the market. Having in mind the needs of clients, the Bank continued to improve its user experience

51 Position of deposits excludes other liabilities and funds acquired through credit lines

by improving the appearance of sub-branches, moving to new premises, adapting working hours, etc.

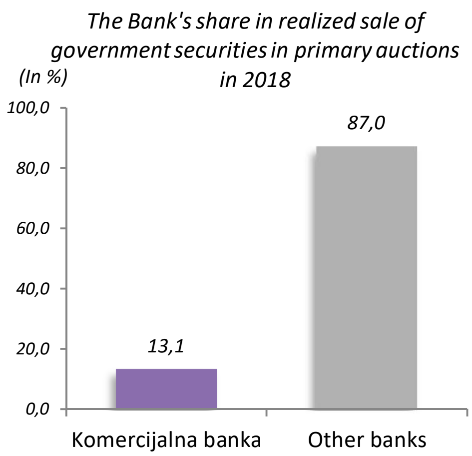
Profitability

Due to all business activities, retail operations generated total net income from interest and fees in the amount of RSD 9,886.0 million, which represents an increase of 9% compared to the previous year.

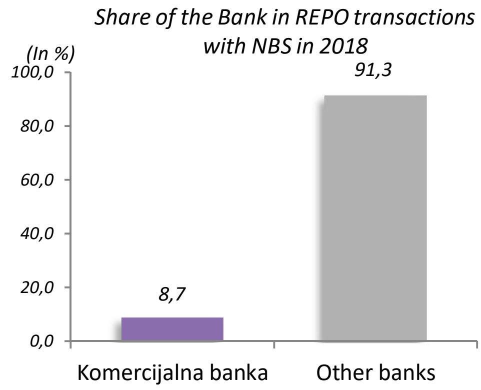
6.4. *Asset Management*

Starting from the strategic orientation of the Bank, the activity of the Treasury's business function is focused on active asset and liquidity management while ensuring the smooth functioning of the Bank and meeting the business needs of its clients.
The environment in which the Treasury's business function operated was marked by a reduction in the reference interest rate (RIR) in 2018 from 3.5% to 3.0%, stabilization of interest rates at a relatively low level, decline in return on domestic government securities and negative interest rates on EUR and CHF in foreign markets, which, given the available funds, represented a very significant challenge in liquidity management .

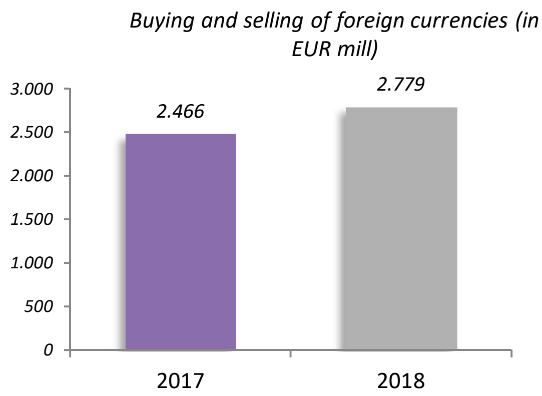
In 2018 the Bank's liquidity position was stable, and liquid assets were mainly placed in government securities of the Republic of Serbia.

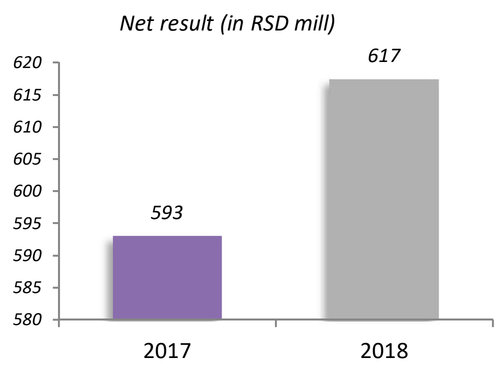


High share of the Bank in primary auctions of government securities of the Republic of Serbia was followed by a very active participation in the secondary market, while taking into account the maturity structure of the source, most of the short-term dinar liquidity was invested through reverse REPO transactions with the National Bank of Serbia.



The activities of the Treasury function on the foreign exchange market were also intense. In the total business transactions with clients, authorized exchange offices and other banks in the interbank foreign exchange market, the volume of buying and selling transactions in the amount of EUR 2,779 million (an increase of 12.7% compared to the previous year) was realized and with a total realized net result in the amount of RSD 617 , 3 million (an increase of 4.1% compared to the previous year).





In mid-2018, the Bank made early repayment of the credit line agreed with KfW and NBS as an Agent for agriculture purpose. At the end of the year, the Guarantee Agreement with the European Investment Fund (EIF) was signed for the WB EDIF programme - Serbian Guarantee Facility. Also, during the second half of the year, preparatory activities were undertaken for the conclusion of the Guarantee Agreement and for the COSME programme. The conclusion of the Agreement is expected in the first quarter of 2019.

The Strategy of the Treasury's function in the forthcoming period will focus on the careful employment of liquid assets into risk-free and low-risk financial instruments, while mitigating the effects of decline of return through placement in instruments on longer maturity.

Key results of the New banking technologies business function, with its special parts

Market – basic tendecies

The last year in digital banking was marked by a larger government intervention, which reflected primarily in active participation in the regulation of card operations. The reason for the government intervention was the amount of interchange fees that banks charged to traders. The Commission for Protection of Competition initiated proceedings against Visa and Mastercard, the largest global card scheme providers, due to the suspicion that the minimum interchange fees were defined in an unfair amount.

The NBS intervened in the market by introducing special measures regulating the amount of interchange fee in the bank's receiving networks in the territory of Serbia. Since 17 December the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions has been applied, according to which a reduction in interchange fee is prescribed, which in the first six months will amount to a maximum of 0.5% for debit cards and 0.6 % for credit cards. Further reduction in fees from 18 June 2019 has been prescribed, when fees will be harmonized with the European level of 0.2% for debit and 0.3% for credit cards. According to NBS, the average interchange fees in Serbia amounted to 1.1% for debit and 2.0% for credit cards. The effect of these measures will affect the Bank's operating income from the receiving network starting in 2019.

The NBS also directed banks to use the national card scheme and support the domestic brand Dina, pointing to lower costs.

The NBS introduced a mandatory instant payment starting on October 22, 2018, when the Banks had to provide clients with infrastructure for enabling instant transfer per sales channel, and since 1 April 2019 banks are obliged to provide instant payment at all payment channels. The NBS Instant Payment System (IPS NBS) is a payment system that works continuously 24 hours a day, 7 days a week, 365 days a year (24/7/365). The total value of turnover realized through the IPS NBS system from the beginning of operation is RSD 1.5 billion and a million transactions with an average payment rate of 1.3 seconds have been made.

The Law on Personal Data Protection (complemenary with GDPR in the European Union) has entered into force, which will be implemented in 2019. The business function of the New Banking Technologies has worked on harmonization with the said Law in its domain of business.

6.5. New Banking Technologies and Digital Banking Division

Development of digital products and electronic services has been largely realised through project initiatives. New unique products were released on the market, and it was actively worked on projects for improving the efficiency of operations

- Komfourpay method (Kom4Pay - K4P) of integrated e-commerce payment through the client's electronic bank was released into production. Pilot production was realized with Gigatron, and by the end of the year three web dealers were integrated. Providing Kom4Pay (comfort payment) on the eGovernment website has created prerequisites for the integration of other public institutions. The bank was the first to develop and release this kind of payment in the production, and the solution was presented at the *Technobank* conference.
- Analytical predictive tool (*CRM - Customer Relationship Management*) was installed in a test environment and adapted to digital channels - electronic and mobile channels. We expect that the tools will be released in production in February 2019. The solution will be used for a variety of purposes, such as increasing sales to existing clients and increasing client loyalty, which will consequently lead to higher profitability. The bank will be the first in the market to have the opportunity to communicate in real time with clients using electronic services and thus help each client in the selection of the best offer. The solution also provides the possibility of expanding communication to the business network via ATMs.
- The offer of the digital sub-branch has been extended by introducing the option to apply for a cash loan through an electronic bank. Cash loan is the first credit product of the bank offered through the electronic sales channel. Submission of application electronically was enabled in October, and 120 applications were submitted by the end of the year.
- In order to increase the efficiency of work in the sub-branches, the project for electronic signing of documents was initiated. Clients will be offered to electronically sign the documents using tablets, and the signed documents are then forwarded to the client by e-mail. The Bank reduces the use of paper by this project and increases the efficiency of employees at the counter by reducing the time needed to scan and print the documentation.
- Via digital sub-branch of the Bank KOMeCENTER, in 2018 clients submitted a total of 4,131 applications, of which 89% were realized. Out of the Bank's products that were offered to clients via KOMeCENTER, the biggest interest was for opening account sets, which makes up 46% of the applications, and for the allowed overdraft it makes up 36%. A total of 420 debit cards were issued. The offer of products offered via KOMeCENTER has been extended to cash loans, standing orders and savings. Further improvements are planned on the digital channel for natural persons, when the clients will be able to make international payments through an electronic bank.

6.6. Omni-Channel Distribution Division

The Omni-Channel Distribution Division actively participated and made outstanding contribution to digital banking projects, in the field of improving the overall offer of the Bank, improving the Bank's competitiveness on the market, improving security, optimizing business operations, and in addition to these results, the following was realised:

- Multibank mobile banking for legal persons within the project OEB1 was the first to be implemented.
- Module for electronic derecognition of salaries for large companies was implemented. In this way a company forwards payroll and order for total amount of the employees' salaries to relevant bank through channels of electronic banking.
- Module for ordering and sending certified copies through the electronic banking channel for legal persons was implemented. A certified copy is a copy signed by a qualified Bank certificate and provides additional security and reduces the possibility of abuse.
- Module for the exchange of electronic invoices between legal persons was implemented, and in this way, clients who exchange a large number of invoices save on the printing, sending, archiving of paper invoices.
- The total number of users of electronic banking of legal persons increased by 5,100, ie 31% more than in 2017, and the number of active users of electronic banking of legal persons also increased by 2,830 or 20.0% compared to the previous year.
- The total number of e-banking transactions increased by 19.0%, which is about two million transactions more than in the previous year.
- The share of eBanka in the Bank's total payment operations increased by 0.5% and amounted to 86.2%.
- The number of users of electronic banking of natural persons increased by 24,000, or 28.0% compared to the previous year.

- The total outgoing traffic of electronic banking for natural persons increased by 10.0% compared to 2017.
- The number of "mBank" users for natural persons has increased by 24% and now it is 77,026.
- The number of missed calls at the Contact Center of the Bank decreased by 84.0% and in 2018 there were 4,326 missed calls.
- The average call time in the Contact Center of the Bank was reduced to 11 seconds.

6.7. Payment Cards Division

In 2018 the Law on Interchange Fees and Special Operating Rules for Card-Based Payment Transactions was adopted.In order to fully implement the Law, the Payment Cards Division had significant activities as follows:

- Preparation, standardisation and signing of a new contract on accepting payment cards with all traders.
- Introducing the new product DinaCard business card and issuing the card to all new clients and clients whose debit cards of other card schemes expired. A total of 3,594 cards were issued in 2018.
- Issuance of DinaCard debit cards to all new clients and clients whose debit cards of other debit card schemes expired. The total number of issued DinaCard debit cards is 96,933 cards.

In addition to the activities on the implementation of the Law on Interchange Fees and Special Operating Rules for Card-Based Payment Transactions, the Payment Card Division installed and put into operation a multifunctional ATM with functionalities:

- deposit and withdrawal of cash in RSD (RSD cash payments),
- deposit and withdrawal of cash in EUR (EUR cash payments),
- exchange transactions.

Also, during 2018, improvements were introduced in e-commerce service. The Bank also enabled its clients to use "card on file" functionality which allows a client to sign up for payment only once, and any next time the system will automatically recognize the card number of the client and the process of payment is significantly simplified.

Payment Cards Division additionally improved its operation compared to 2017, as follows:

- growth of number of POS terminals by 11.8%;
- growth of turnover on POS terminals by 51.1%;
- growth of turnover on ATMs by 9.8%;
- growth of number of issued cards by 10.6%;
- growth of turnover of cards by 12.3%;
- growth of sale in instalments without interest, by 20.7%.

Conclusion

The growth of all key business parameters was achieved primarily in terms of increasing the number of digital clients and increasing the number of transactions and turnover realized through digital channels. Compliance with the legislation was implemented in accordance with legal deadlines. The Bank has taken position of one of the market leaders in the field of digitization by offering unique products on the market. Resources were also focused on projects that would contribute to increasing business efficiency and which will in the long run impact stable business through sales growth, cost savings, client retention and increased loyalty, as well as the acquisition of new clients.

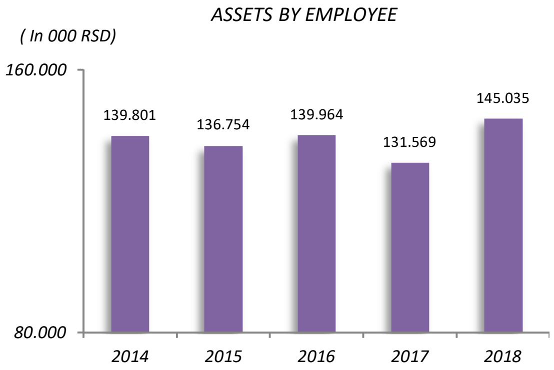
6.8. *Securities Division*

The Securities Division is a separate organizational form of the Bank, and consists of the Authorised Bank – permitted by the Securities Commission to provide investment and additional services, and the Custody Bank - for the conduct of custody operations. In 2018, the Bank achieved significant results in its operations with financial instruments:

- On the primary and secondary (OTC) markets of government securities nominated in EUR and RSD - dealer transactions;
- The Bank is in the top 10 members of the Stock Exchange by total volume of transactions, the second by number of transactions, eight by value;
- Increase in the number of clients of the unique web application Kombank Trader which enables on-line trading of securities on domestic and foreign markets - from computers and mobile phones;
- Increase in the number of clients for services of corporate agent;
- A number of recapitalisations was executed;
- Significant increase in the number of clients in the part of custody services in the foreign market (doubled in 2018 in relation to the total number of the clients acquired by 2018);
- Income growth in Custody Bank;
- Increase in the number of clients' orders from the Custody Bank, which also affected the total income growth of the Bank;
- The trend of competitiveness regarding volume of turnover compared to other custody banks continued;
- Animation of clients, especially voluntary pension funds.

6.9. *The Bank's Human Resources*

The mission of HR management in Komercijalna Banka is to develop and maintain a high level of employee professionalism and motivation with the aim of achieving the Bank's business plans. With continuous optimisation of the number and structure of employees in the past years, the Bank's efficiency increased considerably, when measured as assets per employee. The Bank continuously invests in training and development of its employees.



Development activities in 2018 indicate the continuation of qualitative improvement and proactive approach to employee development and training. This approach is primarily based on precise identification of employees' development needs, defining and adapting the content of training, designing and delivering internal training, organising internal and external training courses, measuring and improving the quality of training and the process of training and development of employees.

Also in 2018 the Human Resources Division actively participated in the organisation and realisation of employee training. This is supported by a large number of participants in external and internal training sessions (a total of 18,716 participants, with one employee attending several training sessions during the year). A total of 1,012 participants attended the training sessions for which external contractors were hired. According to the criterion of the importance of the topic and the coverage of training in terms of the number of participants, the most important external professional training sessions in 2018 were: Obligatory continuous education of authorised representatives in bank security, Training at the National Bank of Serbia for checking the authentication and processing of banknotes and coins denominated in euro, Training at the National Bank of Serbia for conducting cash processing operations.

Internal training sessions realised by employees from the organisational parts of the Bank in cooperation with the Human Resources Division were attended by a total of 17,704 participants.
According to the criterion of the importance of the topic and the coverage of training in terms of the number of participants, the most important internal professional training sessions, including on-line training, in 2018 were: Operational Risks, Information Security, Prevention of Money Laundering and Financing of Terrorism, Officials in the sense of the Law on the Prevention of Money Laundering and Financing of Terrorism, Identification for Account Opening, Typology of Money Laundering, Code of Conduct, Client Complaints and Conflict of Interest, Host of the Sub-Branch, etc.
In cooperation with the representatives of the Retail Banking Division, the Human Resources Division, the Business Network Coordination Division and the Cash Management Division throughout the year 2018, training session Host of the Sub-Branch (569 participants) was realised. The training is intended for all employees in a sub-branch and aims at raising the awareness of employees in the Bank on the importance of adequate communication with clients and resolving disputable situations, ie complaints and appeals, acting in accordance with the law and internal acts of the Bank in day-to-day work with clients, in order to reduce regulatory and reputational risk by the Bank and increased clients' satisfaction with the products and services of the Bank. The effects of the training conducted are reflected, among other things, in a significant increase in the number of praise for the work of the sub-branches in the last quarter of 2018, as well as in more efficient and quicker resolution of disputable issues of the clients. The training will be continued in 2019.
During 2018 accent was made and special attention was paid to internal sales training, aimed at increasing the level of operation and sales activities of employees in order to achieve better sales results (a total of 435 participants). Lecturers from the Retail Business Analytics Division realised the following training sessions in the field of sales: Sales managers' unique approach to work and communication with clients, Simulation of sales inverview, Knowledge of products and identification of clients' needs, Sales tools and quality of draft loan preparation, Cooperation of coordinators and directors of sub-branchces in the function of sales improvement. In the training sessions, special attention is paid to the importance of adequately identifying the needs of clients and presenting the Bank's relevant products and services to clients, unifying the approach in communicating with clients, as

well as to the ways of concluding sales and expanding client bases. Data on the evaluation of the training sessions obtained by the HR division from the participants indicate the need for continuous organisation of training on the topic of sales. In the continuation of the education process, the current competencies of the participants that need to be developed and improved should be taken into account, all in cooperation with the Bank's business functions and Human Resources Division.

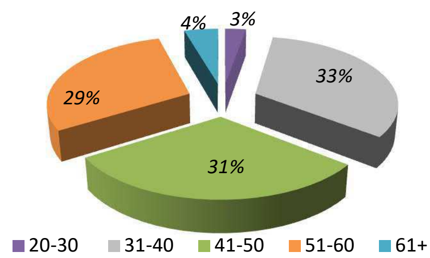
Number of employees	2.766				
Network	1.725				
Division	1.041				
Gender	Male	Female			
	738	2.028			
Status of employment	For indefinite period of time	For definite period of time	Standstill		
	2.671	89	6		
Educational structure	University degree	College	Secondary education	Unqualified, qualified, highly qualified	
	1.246	626	872	22	
Age structure	20-30	31-40	41-50	51-60	61+
	76	907	845	814	124

In 2018, the Human Resources Division continued with the initiative it launched in the previous year, which refers to conducting the internal training sessions for development of skills and competencies (soft skills) for employees in the business centers. In addition to the training session Efficient management, the Human Resources Division also implemented new training sessions: Team coaching and Flexibility in communication. Training session Team coaching is primarily aimed at team leaders, managers and business leaders with the primary goal of defining key values at the Business Centers level, as well as concrete actions aimed at better team cohesion, improvement of communication, methods of team work, and thus the ultimate sales results. Such an integrative approach to the development of competencies and skills of employees affects increase in motivation, loyalty, improvement of interpersonal relationships and team spirit among employees working in different organisational units.

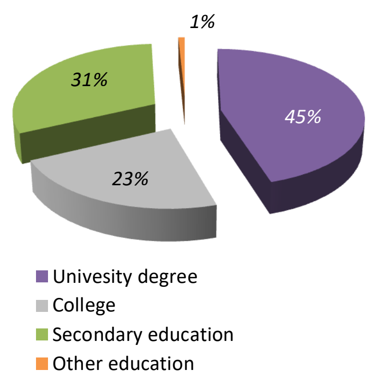
During the training session Team coaching, there was a need for additional training sessions in order to improve the communication skills in accordance with which the Flexibility in communication training was created, the goal of which is flexibility in conduct and communication through changing perception and accepting the diversity of the needs of the interviewees in order to directing communication to the desired result.

Since 2008 the Bank has been conducting an annual evaluation of the work of its employees based on the set annual objectives, monitoring the achievement of these objectives, as well as the expressed capabilities of the employees in achieving the objectives. Annual evaluation of employees' work is also the basis for rewarding, career planning of employees, budget planning and drafting an employee training plan.
The principles of rewarding employees are clearly defined in the Policy on employees' salaries and other benefits adopted by the Board of Directors on a proposal of the Compensation Committee, the Board of Directors body. The aim of this policy is not only to adequately reward employees, but also motivate them to achieve better results.

AGE STRUCTURE OF THE EMPLOYEES IN 2018



EDUCATIONAL STRUCTURE OF THE EMPLOYEES IN 2018.



6.9. Balance sheet of the Bank as at 31 December 2018

No.	ITEM	31.12.2018.	31.12.2017.	INDICES	% OF SHARE AS AT 31 DEC. 2018
1	2	3	4	5	6
	ASSETS (in 000 RSD)				
1.	Cash and funds held with Central Bank	63.595.710	49.840.887	127,6	15,9
2.	Pledged financial assets	-	-		
3.	Receivables from derivatives	4.070	-		-
4.	Securities	133.177.598	117.288.767	113,5	33,2
5.	Loans and receivables from banks and other financial organisations	18.477.729	29.543.789	62,5	4,6
6.	Loans and receivables from clients	167.545.674	153.897.367	108,9	41,8
7.	Changes in fair value of items subject to risk protection	-	-		-
8.	Receivables from derivatives intended for risk protection	-	-		-
9.	Investments in subsidiaries and joint ventures	-	-		-
10.	Investments in subsidiaries	2.611.859	2.611.859	100,0	0,7
11.	Non-tangible assets	557.051	460.263	121,0	0,1
12.	Property, plant and equipment	5.619.078	5.655.248	99,4	1,4
13.	Investment property	1.896.347	1.988.608	95,4	0,5
14.	Current tax assets	-	-		-
15.	Deferred tax assets	840.967	857.096	98,1	0,2
16.	Fixed assets intended for sale and assets from discontinued operations	227.630	241.148	94,4	0,1
17.	Other assets	6.612.267	6.798.506	97,3	1,6
	TOTAL ASSETS (from 1 to 17)	**401.165.980**	**369.183.538**	108,7	100,0

No.	ITEM	31.12.2018.	31.12.2017.	INDICES	% OF SHARE AS AT 31 DEC. 2018
1	2	3	4	5	6
	LIABILITIES (in 000 RSD)				
1.	Liabilities based on derivatives	-	7.845	-	-
2.	Deposits and other financial liabilities to banks, other financial organizations and the central bank	5.662.748	4.532.505	124,9	1,4
3.	Deposits and other financial liabilities to other clients	317.229.084	292.471.640	108,5	79,1
4.	Liabilities based on derivatives intended for risk protection	-	-	-	--
5.	Changes in fair value of items subject to risk protection	-	-	-	-
6.	Liabilities based on securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	1.653.663	1.368.051	120,9	0,4
9.	Liabilities for assets intended for sale and operating funds from discontuned operations	-	-	-	-
10.	Current tax liabilities	-	-	-	-
11.	Deferred tax liabilities	-	-	-	-
12.	Other liabilities	9.059.972	7.543.442	120,1	2,3
13.	**TOTAL LIABILITIES (from 1 to 12)**	**333.605.467**	**305.923.483**	109,0	83,2
	CAPITAL				
14.	Share capital	40.034.550	40.034.550	100,0	10,0
15.	Treasury shares	-	-	-	-
16.	Profit	9.047.691	8.137.249	111,2	2,3
17.	Loss	-	-	-	-
18.	Reserves	18.478.272	15.088.256	122,5	4,6
19.	Ungenerated losses	-	-	-	-
20.	Non-controlling shares	-	-	-	-
21.	**TOTAL CAPITAL (from 14 to 20)**	**67.560.513**	**63.260.055**	106,8	16,8
22.	**TOTAL LIABILITIES (13+21)**	**401.165.980**	**369.183.538**	108,7	100,0

6.10. Profit & Loss Account of the Bank for 2018

No.	ITEM	31.12.2018.	31.12.2017.	INDICES
1	2	3	4	5
	OPERATING INCOME AND EXPENSES (in RSD 000)			
1.1.	Interest income	13.744.908	14.052.436	97,8
1.2.	Interest expenses	-910.270	-1.606.239	56,7
1.	**Interest income**	**12.834.638**	**12.446.197**	103,1
2.1.	Income from fees and commissions	7.207.872	6.700.216	107,6
2.2.	Expenses from fees and commissions	-1.997.723	-1.617.990	123,5
2.	**Profit from fees and commissions**	**5.210.149**	**5.082.226**	102,5
3.	Net profit/loss (-) from changes in fair valus of FI	44.076	56.537	78,0
4.	Net profit/loss (-) from reclasification of FI	-	-	
5.	Net profit/loss (-) from derecognition of FIs that are valued at fair value	230.194	91.584	251,3
6.	Net profit/loss (-) from risk protection	-	-	
7.	Net profit/loss (-) from exchange gains and losses and effects of contractual currency clause	-7.458	-56.358	13,2
8.	Net profit/loss (-) from impairment of FI derecognized at fair value through profit and loss	9.493	17.883	53,1
9.	Net profit/loss (-) from derecognition of FIs that are valued at depreciation value	526.547	-	
10.	Net profit/loss (-) from derecognition of investments in subsidiaries and joint ventures	-	306	-
11.	Other operating income	155.969	183.973	84,8
12.	**TOTAL NET OPERATING INCOME**	**19.003.608**	**17.822.348**	106,6
13.	Costs of salaries, compensation of salaries and other personal expenses	-4.442.799	-4.520.197	98,3
14.	Depreciation costs	-551.988	-563.582	97,9
15.	Other income	280.229	753.804	37,2
16.	Other expenses	-6.167.977	-6.305.123	97,8
17.	**PROFIT / LOSS (-) BEFORE TAX (from 1 to 16)**	**8.121.073**	**7.187.250**	113,0
18.	Income tax	-	-	
19.	Gains from deferred taxes	700.754	1.335.828	52,5
20.	Loss from deferred taxes	-676.645	-405.710	166,8
21.	**PROFIT / LOSS (-) AFTER TAX (from 17 to 20)**	**8.145.182**	**8.117.368**	100,3
22.	Net profit from discontinued operations	-	-	
23.	Net loss from discontinued operations	-	-	
24.	**RESULT OF PERIOD PROFIT / LOSS (-)(from 21 to 23)**	**8.145.182**	**8.117.368**	100,3

7. INVESTMENTS AIMED AT ENVIRONMENTAL PROTECTION

The Bank complies with the highest international standards and values in creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labour rights. By adopting the Policy and the Procedures for Environmental Protection Risk Management, the Bank has defined standards for identifying, monitoring and managing the risks to the environment in the process of loan approval and monitoring. The objective of the environmental risk management system is to introduce this system into the credit activity and credit monitoring processes, thus increasing the opportunities for acceptable and sustainable economic development from the point of view of environmental protection and minimizing the possibility of negative environmental and social effects.

The Bank has also defined the procedure for resolving and responding to the complaints based on the direct or indirect impact of the Bank's business activities on the environment.

The Bank requires its clients to conduct business in accordance with the applicable regulations important for protection of the environment, health and safety, where applicable, EU standards and other standards of good international practice, which comply with the requirements of "EBRD" and "IFC" standards. For the purpose of consistent application of the standards, the Bank applies a list of businesses, projects or activities that are excluded from the financing by the Bank, i.e. the activities that can be financed by the Bank solely after a prior written approval obtained by "EBRD". Based on the approval of the International Financial Institutions, the Bank operates in accordance with the defined limits of engagement by activities: production and trade in alcohol, production and trade in tobacco and tobacco products and gambling activities. Production and sale of weapons and ammunition was excluded from financing by the Bank.

Approaches to environmental risk management include two levels of management: the level of individual placement and at the level of the entire portfolio. For each activity of the clients, the Bank defines the risk level, i.e. the category of risks from the aspect of its impact on the environment.

In the process of granting loans and in accordance with the requirements of international financial institutions and legal regulations relevant for environmental protection, the Bank categorizes the clients' requirements from the aspect of environmental and social impacts using the List of environmental risk categorization.

The Bank monitors the portfolio structure, i.e. the share of risk categories from the aspect of its impact on the environment. Reports are submitted to the Credit Committee, the Executive Committee, the Audit Committee and ALCO Committee on monthly basis and to the Steering Committee on the exposure to the environmental risk on a quarterly basis. Also, the Bank continuously monitors all extraordinary events related to its clients that may have a negative impact on the environment, health or safety or to the community as a whole, and notifies the management bodies and shareholders of the Bank on regular basis.

8. SIGNIFICANT EVENTS AFTER THE END OF THE BUSINESS YEAR

Од 31. децембра 2018. године до краја From 31 December 2018 until the end of February 2019, one session of the Shareholders Assembly of the Bank was scheduled.

The regular Shareholders Assembly of the Bank was scheduled for 28 January 2019. The following agenda was envisaged for the session:

-Decision on the adoption of the Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2019-2021;

-Decision on the correction of technical error in the decisions of the Assembly of the Bank No. 19521/3ц and No. 19521/3д dated 17 October 2018.

The session was not held because of the absence of a quorum for the session to be held. The repeated session of the Shareholders Assembly was held on 27 February 2019, and at this occasion the proposed Decisions were adopted.

On 6 February 2019, an agreement was signed on providing consultancy services in the process of privatization of the Bank between the Government of Serbia, as the majority shareholder of the Bank and "Lazard" (France).

The description of the events after the end of the business year is presented under the point Events after the balance sheet date of the Notes to the financial statements for 2018.

9. PLAN FOR THE FUTURE DEVELOPMENT OF THE BANK

The main pillars of the Bank's development strategy in the future three-year period are:

- Growth of placements to clients (as a key aspect of future profitability in the situation of reduced of interest rates on securities),
- Control of the business risk, especially of the credit risk, in the future period in order to maintain a low level of net expenditures of allowance for impairment,
- Improvement - changing customer structure - targeting clients on the basis of demography and standards (taking into account the development of innovative products); in addition to large companies, the Bank intends to further develop the segment of businesses with local self-governments, small and medium-sized enterprises as well as with clients from the surrounding countries,
- Increase in the share of incomes from fees and commissions compared to the incomes from interests (the Bank will focus more on the incomes from fees and commissions due to the downward trend in interest rates and the application of digitalization and other development initiatives and the expected benefits);
- Controlling the level of operational expenditures and further improvement of business efficiency (through a more stringent financial discipline) in order to reduce the ratio of operating cost and the incomes during the entire planning period (CIR),
- Preservation of an adequate capital base, with payment of cumulated dividends from previous years and dividends from the planned profit in the next three-year period (PAC ≈26% during the planning period).

Retail clients

In the following period, the goals of the Bank in the segment of the retail clients are:

- Preserving and increasing the clients base in all segments,
- Planned acquisition of clients with better performances,
- Maintaining the leading position on the market with regard to the amount of the collected foreign currency savings of citizens,
- Approval of loans to natural persons in the outlet - complete automation of the process,
- Development of a new credit rating and approval system in the outlet for micro and agro business clients,
- Development of the model of loan pre-approval for all segments of clients, in cooperation with the Business Risk Management function, which will be applied for certain segments of clients from the beginning of 2019,
- In cooperation with the Sectors for technical and operational affairs, Marketing and Human Resources, provide a new look of outlets with changed structure of employees,
- Maintaining the quality of the personnel structure and increasing the number of sellers in all segments (natural persons, micro and agro businesses).

One of the basic strategic goals of the Bank in the following period is to maintain and increase the client base with the improvement of the structure in all segments. The focus will be on acquiring clients with better performance, offering new, innovative products and services, and individual approach to the needs of each client. The goal is to shorten the time of loan approval by further improvement of the process in order for the clients to receive the funds as soon as possible (pre-approval of placements, approval in the outlet, crediting through a digital outlet ...).

The growth of placements in all segments is also planned, with the change in the portfolio structure in favour of more profitable products (the share of housing loans will decrease).

Cash loans will continue to be the main driving force behind the growth of placements to retail clients due to high profitability, with the aim of reaching a two-digit market share in the forthcoming years. The growth of housing loans is expected due to favourable lending conditions, the expected growth in average wages and demand growth. The growth in the micro and agro segment is also planned (the Bank is one of the leaders in the market in the agro segment).

The fall of the positive interest rates on the market is not as intense as in the previous years and will be offset by the growth in realization of loans. As a result of all the above, the planned growth of income from interests on retail transactions is 8% in 2019.

In the deposit segment, the Bank's objective is to maintain a leading position in terms of the volume of foreign currency savings collected by the retail clients. The plan is ambitious and anticipates an average annual increase in retail clients' deposits of EUR 80 million, with foreign currency savings being the primary generator of growth. An

individual approach to clients with higher savings is planned in order to prevent outflow to other banks, given the trend of a slight increase in interest rates on the market.
As a result of the expected slight increase in borrowing interest rates, a growth in interest expenses (10%) is also expected, the first time after 2012.

In 2019, we expect a minimum increase in income from fees and commissions due to a decrease in incomes from card-based operations (implementation of the Law on interchange fees). The fees for retail current accounts and in domestic payment transactions have recorded a steady growth due to the increase in the number of clients, switch to "sets" of current accounts and tariff adjustments.
Strategic goals in 2019, in the domain of business digitalization, are to improve user experience on digital channels, improve digital products and services, improve data quality in use, harmonise with legal regulations, and increase agility and efficiency at work.

Conclusion
As a result of all the planned activities, we expect that in 2019 net income from interest and fees will increase by 8%, continuing in this way the trends of growth of retail operations and profitability from the previous years. In addition, the retail operations are the most important generator for achieving goals and net income at the Bank level.

Corporate clients
In the future, the Bank plans to:

- Enhance the use of the existing clients base, with a proactive approach to clients with no engagement with the Bank (40% of market potential are the Bank's clients, and less than 10% are credit clients)
- Increase efficiency in the process of granting loans to companies,
- Maintain the quality of the loan portfolio,
- Expand the offer through the introduction of new products,
- Increase the off-balance sheet portfolio (letters of credit and guarantees),
- maintain profitability at the level of the projected values.

During 2019, the Bank does not expect any significant changes in the business environment compared to 2018. The expected GDP growth will be dominantly under the influence of operations of business entities from export-oriented sectors as well as under the influence of the funds coming in the form of foreign direct investment.

In the planning period, high liquidity of the banking sector is still expected as a result of the lack of demand in creditworthy clients on the one hand, and still present caution with regard to borrowing, on the other hand. The creditworthy companies will try to obtain part of the lacking funds in alternative ways of financing (direct financing by the International Financial Institutions (IFI), EU pre-accession funds, various state programmes, the Development Fund of the Republic of Serbia, etc.) instead from the banks.

The period behind us is characterized by a significant drop in the positive interest rates. The Bank expects stabilisation of the level of positive interest rates, and the possibility of further reduction of interest rates exists only in granting placements to first-class clients.

The enhanced focus remains on the segment of public enterprises at the local and government levels, with the aim of simplifying the procedures and methodology for credit analysis.

The Bank plans significant credit growth in the segment of small and medium-sized enterprises. This activity will take place both from the funds of the Bank, as well as from the funds from credit lines, i.e. the funds of international financial institutions (EIB-APEX III/B Programme, EIF COSME and EDIF Programme).

The region of Belgrade will be in the focus of attention in the future, due to a large concentration of corporate clients.

Participation of the Bank in syndicated lending (joint lending with other banks) for large projects in the private and public sector is also planned, as well as development of the project lending in the area of real estate.

The Bank remains open to participation in the “cross-border” financing in the forthcoming period in the implementation of larger credit claims by the clients from the market in this region. As before, the Bank will continue to coordinate these activities with its subsidiaries in Montenegro and Bosnia and Herzegovina.

The plan for off-balance sheet portfolio growth (guarantees, letters of credits and the like) will depend on the implementation of large infrastructure and construction projects and the selection of contractors for their execution. The Bank will endeavour to actively engage in the "bridge" financing and guarantee monitoring of the clients - contractors and subcontractors in large infrastructure and construction projects in the forthcoming period. In order to increase the off-balance sheet portfolio, the Bank will also strive to introduce additional services based on Trade Finance instruments (factoring of loro letters of credit, pledge on claims under loro letters of credit and similar).

Operations with financial instruments
In 2019, the Securities Sector continues to develop and improve its operations through:

- performing the activities of primary dealers for government debt securities planned to be introduced in 2019 by the Public Debt Administration;
- Improvement of the "Kombank Trader" web application;
- collateral in the investment units of the KomBank Fund for trade on domestic and foreign stock exchanges through Kombank Trader application;
- Automation of the "back-office" transactions for cash settlement of transactions on foreign stock exchanges;
- Improvement of dealer transactions with government debt securities by more frequent trading through a trading book and the expansion of the client base for dealer transactions with clients in the field of banking, insurance and investment funds;
- An increase in the number of clients, with a focus on understanding the needs of clients and fostering long-term business cooperation;
- Realization of interbank repo transactions;
- Providing professional, fast and secure services, as well as supporting clients in achieving their investment goals;
- Improving custodian services provided to the clients for greater reliability, promptness and operability in meeting customer's requirements;
- Automation of "cash settlement" for foreign trading (modelled on the basis of automation of the settlement procedure for the domestic market);
- Automation of the process of drawing up internal and external reports of the Custody Bank (for the purpose of higher level of accuracy and reduced administration and manual engagement per employee);
- Further increase in the number of clients and the volume of services provided to them;
- Growth of portfolio custody;
- Further income growth, accompanied by an increase in the number of clients and portfolio custody;
- Provision of Custody Bank services to the largest domestic voluntary pension fund, "Danube Fund";
- Continuation of a proactive and affirmative approach to potential clients, listening to their needs and expectations and improving the performance of Custody Bank in this regard.

By implementing the principles of friendly and constructive exchange of information, dedication and efficiency, the Securities Sector will continue to easily fulfil clients' expectations in the future.

Profitability
In order to increase the future profitability, the Bank is planning to:

- achieve the growth of placements to clients as a key aspect of profitability under circumstance of the fall of interest rates on securities,
- Generate income growth from fees and commissions to respond to the fall in interest rates,
- More efficient financial discipline and control of the amount of operating expenses (reduction of CIR indicators).

In the past period, the banking sector of Serbia was characterised by the reduction and stabilization of both positive and borrowing interest rates. Consequently, a significant reduction and stabilization of the interest margin occurred. In the future period, no further significant lowering of positive and borrowing interest rates is expected.
In order to maintain and increase the profitability in the forthcoming period, the Bank will make an effort to increase income from fees and commissions. The development of digitalization of business and other initiatives is expected to contribute to the growth of income from fees.
In the future, special attention will be paid to the amount of operational costs, which will result in a further reduction in the cost/income ratio.
After significant costs of allowances for impairment in 2015 and 2016, the Bank does not expect any significant expenditures of allowances for impairment in the next three-year period.

As a result of the above stated, for the next three-year period the profitable operations of the Bank are planned as well as the adequate rate of yield on assets and capital.

Funds management (“*Treasury*”)
The strategy of the Bank in the future, in the part of businesses related to funds management, is the following:

- active management of the entire portfolio of securities,
- optimization of funds from credit lines and
- contribution to the profitable business operations of the Bank.

As a result of the lack of quality demand in the previous period, a significant part of the Bank's assets is in highly liquid and no-risk securities (bonds and bills of the Republic of Serbia). The Bank does not plan further significant increase of investments in securities, but will re-invest the funds released from the securities into instruments with longer maturities. This will mitigate the negative effect of the fall of interest rates, especially on securities with shorter maturity.

The amount of deposits of retail clients and legal entities with insufficient loan demand diminished the need of the Bank to use funds from credit lines from abroad. In order to optimize its liabilities and reduce interest expenditures, the Bank made an early repayment of a part of the credit lines. The optimization of credit lines will continue in the forthcoming period, the Bank will repay high-interest credit lines on their maturity and will engage in new credit lines only if there are creditworthy clients interested in loans from those lines.

Based on the above mentioned, the objectives of the Bank in the field of funds management are to have adequate liquidity reserves at all times in the form of highly liquid assets that can be quickly converted into cash. The surplus of liquid funds will be invested in low-risk securities or placed to other first-class financial institutions in order to obtain the appropriate income. The development of innovative products as well as buying and selling foreign exchange transactions in the money and capital market will provide an adequate amount of net income from fees.

Deposit potential

The main sources of deposit potential of the Bank in the following period will be:

- foreign currency savings of the retail clients - remains the dominant source of financial funds in the following period,
- deposits of legal entities and financial institutions; and
- funds raised in the form of credit lines from international financial institutions.

For a long period of time the Bank has been standing out in the banking sector in the amount of foreign currency savings of the retail clients. The strategic commitment of the Bank is to continue to be a leader in this segment, while at the same time it is trying to optimize the price and structure of this source of funds. The Bank plans to continue to base foreign currency savings on a large number of clients, that is, to have a large number of depositors with small individual cash deposits.

Deposits of legal entities have been at a stable level over a long period of time, and it is expected that new clients - credit users, will transfer their deposits to the Bank, which will result in the growth of deposits of legal entities.

Taking into consideration a recognized and stable market position, the Bank is in position to apply to international financial institutions for funds in the form of dedicated credit lines.

The Bank will use this source of financing in accordance with the capabilities to create from them credit products acceptable on the market.

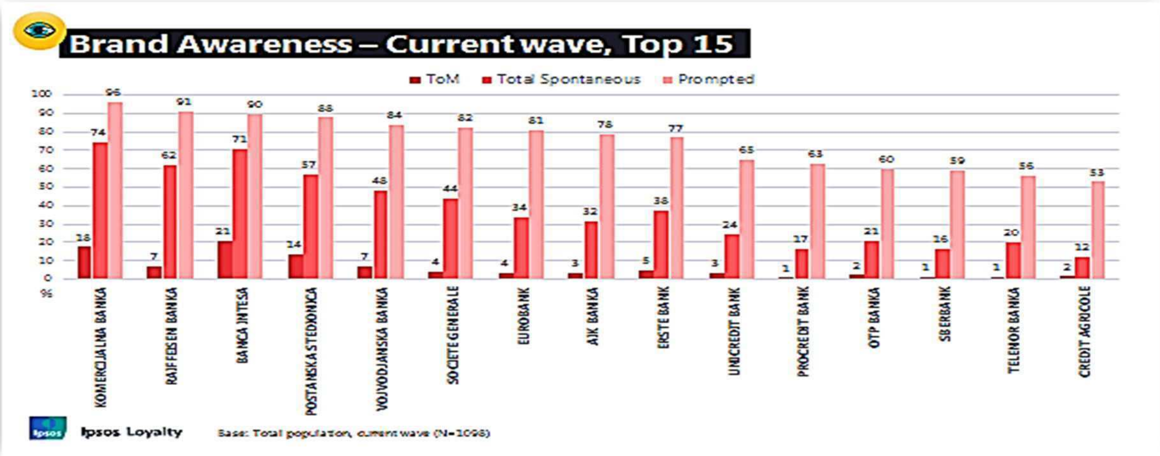
10. RESEARCH AND DEVELOPMENT

The development of digitization in the financial market continued in the past year, as well as attracting new clients with more favourable credit conditions. The Bank monitored these events and successfully adapted to the conditions and changes in the market in order to maintain its leading position, as demonstrated by the conducted survey.

Market positioning of the Bank as a brand, its products and services were also checked through 2018, through the banking Omnibus, conducted by the IPSOS research agency specialized in this type of research. The survey shows that the Bank holds a leading position for a long time, in the opinion of the general public, measured by brand awareness criteria, quality and satisfaction with the products and services that clients use. All results of the survey are shown on the internal Portal of the Bank, and the target groups are also informed with the aim of further strengthening the brand Komercijalna banka.

The latest banking Omnibus report (November 2018) shows that Komercijalna banka Beograd, according to the respondents, ranked as the first-ranked by brand awareness criterion among the top 15 banks in Serbia.

Brand awareness of the banks in Serbia:



11. PURCHASE OF OWN STOCKS AND SHARES

The Bank did not have its own shares as on 31 December 2018 nor owned them in 2018.
Also, the Bank does not intend to acquire its own shares in the following period.

12. FINANCIAL INSTRUMENTS IMPORTANT FOR THE ASSESSMENT OF FINANCIAL POSITION

For an adequate assessment of the financial position of the Bank at the end of 2018, the following balance sheet items are relevant:

- on the side of assets:
  - loans and receivables from clients,
  - loans and receivables from banks and other financial organizations,
  - securities,
  - cash and funds with the Central Bank.
- on the side of liabilities :
  - deposits and other liabilities towards other clients,
  - capital.

Loans and receivables from clients, banks and other financial organizations at the end of 2018 amounted to RSD 186,023.4 million and accounted for 46.4% of the total balance sheet assets. At the end of 2017, the sum of the same two items amounted to RSD 183,441.2 million, accounting for 49.7% of the total assets. In 2018, the Bank paid particular importance to the risk management policy, given the fact that loans and other placements accounted for almost 50% of the total assets. Sspecial attention was paid to credit risk monitoring. During the previous year, loans and receivables increased by RSD 2,582.2 million or 1.4%. The large loan portfolio of the

Bank was secured with an appropriate amount of allowances for impairment and reserves.

At the end of 2018 the securities amounted to RSD 133,177.6 million, accounting for 33.2% of the total assets. At the end of 2017, the same item amounted to RSD 117,288.8 million, which is an increase in the placement of free funds by RSD 15,888.8 million or an increase of 13.5%. Securities are mostly securities of the Republic of Serbia - government bonds in RSD and EUR.

Cash and funds with the Central Bank amounted to RSD 63,595.7 million at the end of 2018 and compared with the beginning of the year, they increased by RSD 13,754.8 million or 27.6%. The largest part of this item consists of bank account funds (40.1%) and funds allocated to the National Bank of Serbia in the form of the required reserve (48.6%).

Taking into consideration the structure of assets, it can be concluded that the credit-sensitive assets, as well as other types of risks were kept at an optimum level with a reasonable risk-taking policy. The Bank's management has provided protection of the loan portfolio by an adequate assessment of the credit risk in a significantly more restrictive way.

Deposits and other liabilities towards banks, other financial institutions, the Central Bank and other clients (including credit line funds) at the end of 2018 amounted to RSD 322,891.8 million, which makes up 80.5% of the total balance sheet liabilities. Compared to the beginning of the year, the deposits and other liabilities toward other clients increased by RSD 24,757.4 million. The deposit potential of the Bank is dominated by the foreign currency deposits of natural persons. As on 31 December 2018, foreign currency savings of the retail clients amounted to EUR 1,692.1 million, consisting of still a large number of small-amount deposits. Despite the lower interest rates on retail savings in relation to previous years, foreign currency deposits of natural persons increased at the end of 2018 from EUR 68.4 million compared to the end of 2017.

The total capital of the Bank at the end of 2018 is RSD 67,560.5 million, which makes 16.8% of the total liabilities. In the observed business year, the total capital was increased by RSD 4,300.5 million or 6.8%. Capital increase is the result of the profit gained in 2017 and 2018. Also, during 2018, the Bank's reserves increased by RSD 3,390.0 million.

The Bank achieved capital adequacy of 29.18% at the end of 2018, which is above the statutory minimum (8% + requirement for the combined capital buffer).

In the course of 2018, the Bank provided the necessary diversification of the sources of financing of operations from the aspect of required stability and profitability.

13. RISK MANAGEMENT

13.1. Objectives and Policies for Managing Financial Risks

Risk management is a key element of business management, since exposure to risks results from all business activities, as an inseparable part of banking operations, managed through identifying, measuring, assessing, monitoring, controlling and mitigating, and reporting a risk, i.e. establishing risk limitations, as well as reporting in line with strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks the Bank is exposed to or may be exposed to in its operations, adequate internal control system, an appropriate information system and an adequate process of internal capital adequacy assessment. Also, the Bank Recovery Plan is integrated in the risk management system as a mechanism of early identification of the situation of a severe financial disturbance in which the Bank can take measures or apply the defined recovery options in order to prevent entry into the early intervention phase in which a regulator has active participation, or improve already worsened financial situation. With the Risk Management Strategy and Capital Management Strategy and Plan, the Bank set the following goals within the risk management system: minimizing the negative effects on the financial results and capital, while respecting the defined framework of the acceptable level of risk, maintaining the required level of capital adequacy, developing the Bank's activities in accordance with business opportunities and market development in order to achieve competitive advantages, diversification of the risks that the Bank is exposed to, maintenance of the share of NPLs in total loans up to the acceptable level for the Bank, maintaining the coverage indicators by liquid assets above the statutory level and internal limits. The Bank continuously monitors all announcements and changes in the regulatory framework, analyses the impact on the level of risk and takes measures to timely align its business with new regulations, such as the implementation of the International Financial Reporting Standard 9 (IFRS 9) implemented by the Bank as of 1 January 2018. Also, the Bank carried out activities on alignment with the new regulation, which additionally regulate the Bank's exposure to concentration risk based on certain products, which will come into force at the beginning of 2019. Through a clearly defined process of introducing new and significantly altered products, services and activities related to processes and systems, the Bank analyses their impact on future risk exposure in order to optimize their incomes and costs for the estimated risk, and to minimize any potentially negative effects on the financial results of the Bank. A more detailed overview of the Bank's risk management objectives and policies is presented in the Notes to the financial statements.

Policy of protection against exposure to credit risk

With the objective of protection against exposure to credit risk, the Bank applies credit risk mitigation techniques by providing acceptable security instruments (collaterals) as secondary sources of collection of placements. The Bank strives to deal with clients with good creditworthiness, assessing it at the time of submission of requests and by regular monitoring of debtors, placements and collaterals in order to timely undertake appropriate activities in the process of collection. Types of collaterals depend on the credit risk assessment of the debtor and are determined individually in each particular case, and their acquisition is carried out upon the conclusion of the contract and before the realization of the placement.

The Bank regulated the evaluation of credit security instruments and management of these instruments by its internal acts.

When assessing the value of a collateral, the Bank engages authorized appraisers in order to reduce the potential risk from unrealistic evaluation to the minimum level, and the immovable property, goods, equipment and other movable items being the subject of pledge must be insured with an insurance company acceptable to the Bank, with insurance policies tied to the Bank.

With the view of protection against changes of collateral market value, the estimated value is adjusted for the defined percentage of reduction, depending on the type of collateral and the location of the property, which are both regularly reviewed and revised.

The Bank pays special attention to the monitoring of collaterals and undertakes activities to provide new evaluations, as well as to obtaining additional collaterals, primarily from clients with identified problems in the business, as well as clients whose coverage of exposure to collaterals is reduced due to the fall of the value of collaterals.

For the purpose of adequate risk management, the Bank conducts activities on credit risk analysis when approving the placements and mitigates credit risk in clients of the above mentioned status, as well as through taking measures and actions in order to protect the Bank's interests and prevent negative effects on the financial results and capital of the Bank by establishing of a system for monitoring, preventing and managing non-performing placements, including the adequate identification of potentially risky clients (Watch List).

During 2018, the Bank continued to improve the risk management system. The Bank revised the Risk Management Strategy and Individual Risk Management Policy, supplemented policies and procedures in order to align with changes in domestic and international regulations, improved business practices and organizational changes. In line with the changed requirements of the regulations, credit risk management has been improved.

In 2018, the Bank was focused on improving the quality of the loan portfolio by reducing new bad loans and addressing the problems of the clients that had already been identified as non-performing, and has also implemented activities to reduce non-collectable placements (improved collection, sale / assignment, as well as writing-off by transferring entirely impaired receivables into the off-balance sheet records). In accordance with the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets of a bank (applied as of 30 September, 2017), the Bank transferred 100% of impaired loans from the balance sheet to the off-balance sheet records. The Bank also collected the significant amount of placements, which resulted in a significant reduction in the NPL indicators that are below the planned level defined by the Business Plan, as well as by reducing the demand for credit risk through revising the maximum acceptable level of bad assets.

Since 1 January 2018, the Bank applies IFRS 9 standard and has, in accordance with this standard, implemented the new Methodology for assessment of the impaired balance sheet assets and probable loss on off-balance sheet items. There was a transition from the concept of "incurred losses" to the concept of "expected losses" through the introduction of impact of the expected trends of macroeconomic factors on the future trends of probability of the default status on the basis of statistically proven interdependencies; the portfolio is differentiated into three levels that monitor the status of a client (level 1 – PL clients without identified increase of credit risk, level 2 - PL clients with identified increase of credit risk - measured by a set of defined criteria, level 3 - NPL clients). In addition, in accordance with IFRS 9 standard, the Bank also calculates the impairment for exposures to the Republic of Serbia and to the National Bank of Serbia.

The Bank has aligned all relevant internal acts in accordance with the implementation of IFRS 9 standard. Effects of the first implementation of IFRS 9 standard on 1 January, 2018 have been debited to the capital, i.e. to non-allocated profit. The actual growth of value adjustments (income statement) in 2018 was well below the planned value for 2018, due to the achieved volume of portfolio, the conservative policy of placement approval and the standard quality of portfolios of legal entities, as well as the higher level of collection of non-performing placements in relation to the planned. A significant reduction in value adjustments in the balance sheet is a consequence of the transfer of 100% of impaired placements from the balance sheet to the off-balance sheet records.

13.2. Risk exposure (price, credit, liquidity risk and cash flow risk) with a risk management strategy and an assessment of their effectiveness

The Bank is particularly exposed to the following types of risks in its business operations:

1. Credit and credit-related risks.
2. Liquidity risk.
3. Market risk.
4. Interest rate risk in the banking book.
5. Operational risk.
6. Investment risk.
7. Risk of exposure.
8. The risk of the country as well as any other risks that may arise in the ordinary course of business of the Bank.

Credit risk is the possibility of negative effects on the financial results and capital of the Bank due to the debtor's non-compliance with the obligations towards the Bank. Credit risk is conditioned by the borrower's creditworthiness, its due fulfilment of obligations towards the Bank, as well as the quality of the security instrument. The acceptable level of exposure of the Bank to the credit risk is in line with the defined risk management strategy and depends on the structure of the Bank's portfolio, on the basis of which limiting the negative effects on the Bank's financial results and capital is possible, as well as minimizing capital requirements for credit risk, counterparty risk, the risk of reduced value of the purchased receivables, the risk of settlement / delivery on the basis of free deliveries and in order to maintain capital adequacy at an acceptable level. The Bank manages the credit risk at the level of the client, the group of related parties and the entire loan portfolio. The Bank approves placements to clients (legal entities and natural persons) who are assessed to be creditworthy by performing an analysis, i.e. a quantitative and/or qualitative weighing and assessment of the credit risk and the financial status of the borrower. The process of weighing a credit risk is based on weighing the level of risk of individual placements based on the internal rating system, as well as on applying the regulations of the National Bank of Serbia, which requires classification of each placement on the basis of the prescribed criteria and calculation of the required level of reserves for estimated losses. In accordance with the regulations of the National Bank of Serbia from of 1 January 2019, the Bank has no obligation to calculate reserves for estimated losses and allocate the required reserves. By monitoring and controlling the portfolios as a whole and by segments, the Bank compares them with the previous periods, identifies movement trends and causes of changes in the level of credit risk. It also monitors asset quality indicators (NPL trends, NPL coverage level by allowances for impairment, etc.), as well as exposure to regulatory and internally defined limits. By the Decision on concentration risk management based on the exposure of the bank to certain types of products, the National Bank of Serbia prescribes, as of 1 January 2019, the obligation to monitor the concentration risk, i.e. the exposure to the groups of products, such as exposure to cash, consumer and other loans granted to natural persons with original maturity of over 8 years in 2019, or on its further reduction in the next two years. The process of monitoring the quality of the loan enables the Bank to estimate potential losses as a result of the risks it is exposed to and to take appropriate corrective measures. On the other hand, the Bank does not invest in high-risk placements such as investments in potentially profitable projects but at high risk, in investment funds of high-risk portfolio and similar.

Liquidity risk represents the possibility of negative effects on the financial results and capital of the Bank due to the Bank's inability to meet its due obligations on maturity, as well as to provide liquid assets in the short term at no higher cost. The liquidity risk is manifested through the difficulties of the Bank in settling its due liabilities in the event of insufficient liquidity reserves and the inability to cover unexpected outflows of other liabilities. The Bank in its business operations respects the basic principles of liquidity, by achieving sufficient level of liquid assets to cover short-term liabilities, i.e., respects the solvency principle by forming an optimum structure of own and borrowed sources of funds and by forming a sufficient level of liquidity reserves that do not jeopardize achieving the planned return on capital. The liquidity risk is also reflected in the inability of the Bank to transform some parts of assets into liquid funds in the short term. The Bank analyses the risk of sources of funds and the market liquidity risk. The problem of liquidity from the aspect of the source of funds refers to the structure of the liabilities, i.e. obligations and is expressed through the possibly significant share of unstable sources, short-term sources or their concentration. The risk of liquidity of the source of funds in fact presents a risk that the Bank will not be able to meet its obligations due to the withdrawal of unstable sources of funds, or the inability to obtain new sources of funds. On the other hand, the liquidity risk is also manifested through the deficit of liquidity reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices. During 2018, the Bank complied with the regulatory and internally defined limits. The Bank actively takes preventive measures in order to minimize exposure to liquidity risk.

Market risk represents the possibility of negative effects on the Bank's financial results and capital due to changes in market variables and includes foreign exchange risk for all business activities it performs and the price risk of book trading items.

The Bank is exposed to the ***foreign exchange risk***, manifested through the possibility of negative effects on the financial results and capital due to the volatility of foreign exchange rates, ratios, the change in the value of the domestic currency against foreign currencies or change in the value of gold and other precious metals. In order to minimize the exposure to the foreign exchange risk, the Bank performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open items by individual currencies, respecting the principles of transformation of maturity of funds. During 2018, the Bank was in line with the regulatory foreign exchange risk indicator, which was expressed as 20% of regulatory capital, as well as with significantly more conservative internally defined limits.

Interest rate risk is the risk of negative effects on the financial result and the Bank's equity based on items in the banking book due to negative changes in interest rates. The Bank timely determines, in a comprehensive manner, the causes of the current exposure to interest rate risk and estimates the factors of the future exposure. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities. The objective of the interest rate risk management is to maintain an acceptable level of exposure to the interest rate risk from the point of view of impact on the financial results and the economic value of the capital, by maintaining an adequate policy of matching the maturity of the period of re-setting interest rates and matching the sources with placements according to the interest rate and maturity.

Operational risk is the risk of possible negative effects on the financial results and capital of the Bank due to the employees' failures, inadequate internal procedures and processes, inadequate management of information system and other systems in the Bank, and the occurrence of unpredictable external events. Operational risk also includes a legal risk, which represents the risk of negative effects on the financial results and capital of the Bank based on judicial or extra-judicial procedures. The Bank takes measures in order to mitigate operational risks and proactively responds to potential operational risk events through permanent monitoring of all activities, monitoring key risk indicators that represent an early warning for signalling changes in the risk profile of the Bank, the application of an adequate and reliable information system, the implementation of which improves the business practice and optimizes the business processes of the Bank. In order to minimize the legal risk and its impact on the financial results, the Bank continues to improve its business practices in the part of timely provisions for claims against the Bank, and in accordance with the estimate of expected future loss on this basis.

Investment risk of the Bank represents the risk of investing in other legal entities and in fixed assets and investment properties. In accordance with the regulations of the National Bank of Serbia, the level of long-term investments is monitored and the Bank's Bodies and Committees are informed. This ensures that the Bank's investment in an entity coming from a non-financial sector does not exceed 10% of the Bank's capital and that the Bank's investments in entities coming from a non-financial sector and in fixed assets and investment properties of the Bank do not exceed 60% of the Bank's capital.

A large ***exposure of the Bank*** to one person or a group of related persons, including persons related to the Bank, represents an exposure amounting to at least 10% of the Bank's capital. During 2018, the Bank complied with the regulatory and internally defined exposure limits.

The risk of the country is a risk referring to the country of origin of the person to whom the Bank is exposed, i.e. the risk of the possibility of negative effects on the financial results and capital of the Bank due to the Bank's inability to collect receivables from a debtor for the reasons due to political, economic or social conditions in the country of origin of the debtor. The Bank's exposure to the risk of the country is at the acceptable level.

A detailed presentation and explanation of the risks that the Bank is exposed to in its operations is shown in Point 4 of the Notes to the financial statements.

14. SOCIALLY RESPONSIBLE BUSINESS OPERATIONS

A special contribution to the preservation and enhancement of the value of the corporate image represent the activities in the field of socially responsible business (SRB), which were carefully selected and supported by the Bank, and in which the Bank actively cooperated with its partners. In 2018, the Bank continued with the action of donations for the babies born on the World Savings Day on 31 October in the amount of EUR 50 in dinar countervalue.

KOMBANK ART HALL, our gallery space in the centre of Belgrade, attracted the attention of the media and the public in the course of 2018 through 15 conceptually different exhibitions, organized in cooperation with the Faculty of Applied Arts (FAA). During 2018, 15 exhibitions were held at KOMBANK ART HALL. In cooperation with the Faculty of Applied Arts from Belgrade, 10 exhibitions were held. In addition to the works of the students of basic academic, master and doctoral studies at FAA, to the audience were also presented the works of artists from the Academy of Fine Arts in Sarajevo, the State Academy of Arts of Tbilisi, Georgia, and the professor of Anadolia University from Eskişehir, Turkey.

KOMBANK ART HALL has traditionally presented the works of the finalists of the International Competition “Mini Act”. The best works of the FB group "Moj Beograd dusu ima" are also shown in the KOMBANK ART HALL. Noticeable exhibitions by young artists Lazar Dimitrijevic and Nikola Zaklan were also held here, as well as exhibitions by the students from Tehnoart School in Belgrade.

Information on each exhibition was presented on Komercijalna Banka web site and its profiles on social networks, and received an adequate media attention.

Modern market activities cannot be imagined without proper PR support. The Bank has communicated with its stakeholders in a quality, clear and targeted manner in order to achieve mutual understanding and favourable opinion about the company, thus maintaining its acquired image and reputation.

Marketing activities of the Bank

The marketing plan for 2018 continued with the promotion of products and services, both existing and new, with the constant recall and brand refreshment. The previous year, 2018, was marked by campaigns for the existing products and services of the Bank, such as campaigns for cash loans and refinancing loans, loans for pensioners, agrarian loans, housing loans, student loans, loans for small businesses and entrepreneurship, current accounts (for natural persons and for small businesses and entrepreneurship), payment cards, etc.

Agrar loans were promoted at the Agriculture Fair in Novi Sad and at several appropriate events throughout Serbia.

The emphasize in the promotion of payment cards was on the domestic DinaCard card, as follows: redesigned DinaCard Classic for natural persons and new DinaCard Business for legal entities and the DinaCard Start for youth.

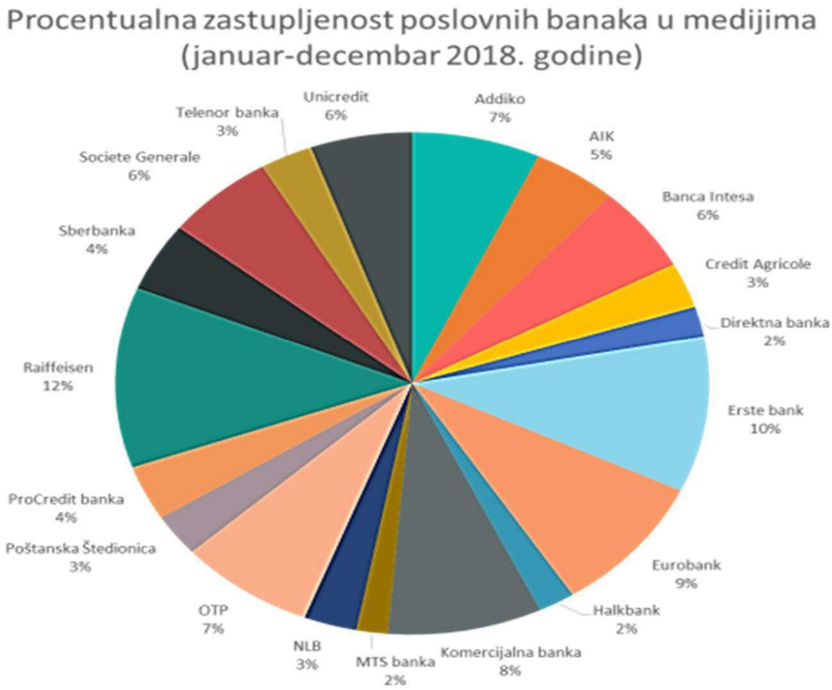
An appropriate promotion also accompanied the introduction of a new digital service "KOM4PAY", as well as other digital products and services of the Bank: mobile and electronic banks, virtual "KOMePAY" cards, Kombank Trader applications and "KOMeCENTAR" digital outlets.

The implemented campaigns were integrated, which means that they coordinated a number of communication channels through which we sent a clear and attractive message about the Bank and its product, which is supported by successful data on the position of the Bank regarding the visibility of advertising campaigns.

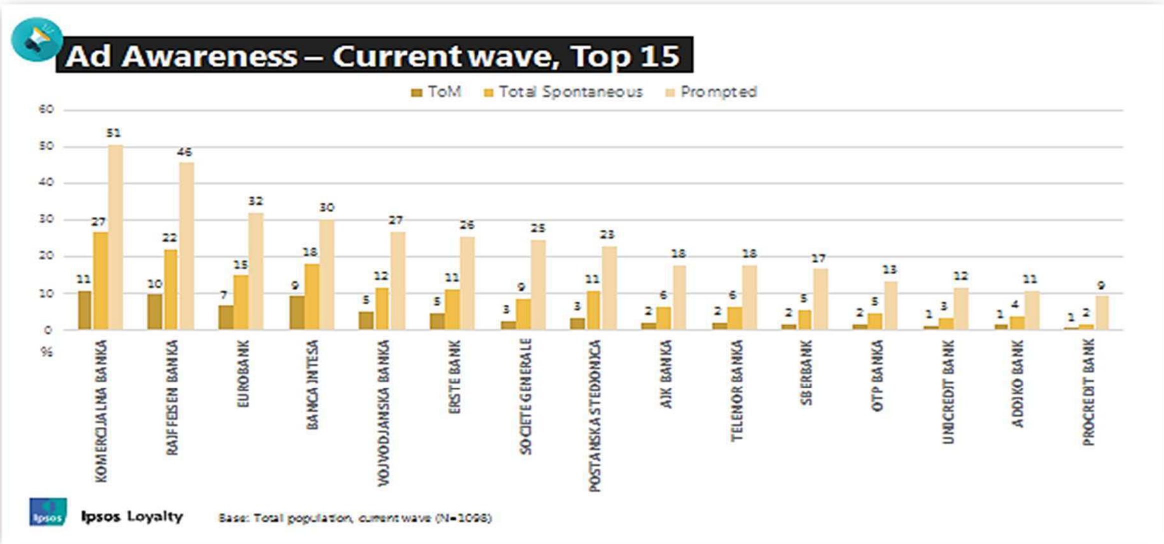
In addition to the traditional channels of communication, a comprehensive communication through social networks has continued: Facebook, Twiter, Youtube, Google+, Instagram, Linkedin. In this way, the effects of the promotion were at the highest level, since the benefits of both traditional and modern media were used.

All marketing activities are followed on our website: www.kombank.com s well as on the Bank's social network profiles.

Percentage representation of commercial banks in the media (January - December 2018):



Visibility of advertising campaigns in Serbia:



15. IMPLEMENTATION OF THE BANK'S BUSINESS PLAN FOR THE YEAR 2018

15.1. Realisation of the balance sheet plan for 2018

No.	ASSET ITEM	REALISED IN 2018.	PLAN FOR 2018.	INDICES
1	2	3	4	5
	ASSETS (in RSD million)			
1.	Cash, cash equivalent and deposits with CB	63.596	53.783	118,2
2.	Securities	133.178	110.287	120,8
3.	**Loans and receivables from banks and other financial organizations**	**18.478**	**22.886**	80,7
3.1.	Loans	7.498	8.456	88,7
3.2.	Other placements and receivables	10.979	14.430	76,1
4.	**Loans and receivables from clients**	**167.546**	**185.279**	90,4
4.1.	Corporate clients (loans)	75.264	91.471	82,3
4.2.	Retail clients (loans)	92.034	93.398	98,5
4.3.	Other placements and receivables (corporate + retail)	248	410	60,4
5.	Investments in subsidiary and affiliate companies	2.612	2.612	100,0
6.	Fixed assets and investment property	7.515	6.966	107,9
7.	Other assets	8.242	6.163	133,7
8.	**TOTAL ASSETS**	**401.166**	**387.975**	103,4

- Cash and deposit balances at the CB are higher than planned due to amount of placements of funds in loans smaller than planned.
- The item of securities recorded a growth against the planned volume of RSD 22,890.6 million as a result of increased investment activity in securities in the Republic of Serbia.
- Placements and receivables from banks and other financial organizations are smaller than originally planned due to the smaller amount of placements of funds in repo transactions and the smaller amount of loans granted to banks in relation to the planned values.
- Loans to the corporate clients were realized at a lower level compared to the planned value (-17.7%) due to the lack of quality demand.
- Placements to retail clients are slightly lower than planned (-1.5%).
- The growth of the credit portfolio of corporate clients smaller than planned was compensated by the growth of placements in securities in relation to the planned volume (20.8%).
- The value of fixed assets and investment property is within the planned volume.
- Other assets were realized at a higher level than planed (33.7%) primarily due to realization of other assets higher than planned.

No.	LIABILITY ITEM	REALISED IN 2018.	PLAN FOR 2018.	INDICES
1	2	3	4	5
	LIABILITIES (in RSD million)			
1.	**Deposits and liabilities to banks, financial organizations and CB**	**11.833**	**12.076**	98,0
1.1.	Deposits	9.015	7.062	127,6
1.2.	Credit lines	2.818	4.993	56,4
1.3.	Other liabilities	1	20	4,7
2.	**Deposits and other liabilities toward clients**	**311.058**	**304.865**	102,0
2.1.	**Corporate clients**	**49.938**	**44.525**	112,2
2.1.1.	Deposits	49.880	44.360	112,4
2.1.2.	Other liabilities	58	165	35,1
2.2.	**Retail clients**	**261.121**	**260.340**	100,3
2.2.1.	Deposits	260.296	258.984	100,5
2.2.2.	Other liabilities	824	1.356	60,8
3.	Subordinated liabilities	0	0	-
4.	Provisions	1.654	1.477	112,0
5.	Other liabilities	9.060	4.089	221,6
6.	**TOTAL LIABILITIES**	**333.605**	**322.507**	103,4
7.	Share capital and emission premium	40.035	40.035	100,0
8.	Reserves from profit and non-allocated profit	27.526	25.433	108,2
9.	**TOTAL CAPITAL**	**67.561**	**65.468**	103,2
10.	**TOTAL LIABILITIES**	**401.166**	**387.975**	103,4

- Deposits of retail clients reached the amount slightly above the planned ones.
- Deposits of corporate clients are by 12.4% above the planned values.
- Deposits of banks and other financial organizations are by 27.6% above the planned values.
- Total capital is higher than planned due to higher amount of realized profit in relation to the plan, as well as due to more formed reserves from profit.

15.2. Realisation of the balance of success plan for 2018

No.	ITEM	REALISED IN 2018	PLAN FOR 2018	INDICES
1	2	3	4	5
	(in million RSD)			
1.1.	Income from interests	13.745	13.830	99,4
1.2.	Expenses arising from interests	-910	-1.084	84,0
1.	**Profit arising from interests (1.1.-1.2)**	**12.835**	**12.746**	100,7
2.1.	Income from fees and commissions	7.208	7.951	90,7
2.2.	Expenses from fees and commissions	-1.998	-1.745	114,5
2.	**Profit arising from fees and commission (2.1. -2.2.)**	**5.210**	**6.206**	84,0
3.	Net exchange rate difference and change of value (currency clause)	-7	-	-
4.	Net expenses from indirect write-offs of placements and provisions	9	-988	-
5.	Other operating income	548	134	409,0
6.	Operating expenses	-10.474	-10.953	95,6
7.	**PROFIT FROM REGULAR OPERATIONS BEFORE TAKING INTO ACCOUNT TAX**	**8.121**	**7.145**	113,7

- The gained net profit arising from interest in 2018 is higher than planned by 0.7%. Income from interests gained from corporate and retail operations is lower than planned. Income from interests gained under the "Treasury" business function is higher than planned. As a result of the above, the total income from interests is lower than planned by RSD 85.1 million. At the same time, the total recorded expenditures from interests are lower than planned by RSD 173.7 million, partly due to the reduction of borrowing interest rates.
- Net income from fees and commissions gained in the previous year is lower than planned by 16.0%.
- At the end of 2018, net incomes from indirect write-offs of placements and provisions in the amount of RSD 9.5 million were gained, while the plan envisaged net expenditure in the amount of RSD 987.7 million.
- Operating expenditures are lower than the planned amounts by RSD 479.2 million.
- Other operating incomes are higher than planned by RSD 414.0 million as a result of incomes from the sale of NPL placements.
- In the period January-December 2018, pre-tax profit of RSD 8,121.1 million was gained, which is more than planned by 13.7%.

Signed on behalf of Komercijalna banka a.d. Beograd

Miroslav Perić, PhD

Member of the Executive Board

Vladimir Medan, PhD

President of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

KOMERCIJALNA BANKA
AD Beograd

Svetog Save 14, 11000 Beograd
Tel: +381 11 30 80 100
Fax: +381 11 344 13 35
Registration No. 07737068
Tax Identification No. SR 100001931
VAT No. 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account No. 908-20501-70
SWIFT: KOBBRSBG
E-mail: posta@kombank.com
www.kombank.com

KOMERCIJALNA BANKA AD BEOGRAD
Svetog Save 14
11000 Beograd

18.04.2019.

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011, 112/2015, 108/2016) Komercijalna banka AD Beograd issues the following

STATEMENT

I hereby state that, according to my best knowledge and based on the opinion of an external auditor, the annual financial statements have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company.

KOMERCIJALNA BANKA AD BEOGRAD

Member of the Executive Board	President of the Executive Board
Miroslav Perić, PhD	Vladimir Medan, PhD

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

2P 8

KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF THE BANK'S SHAREHOLDERS

No. 4586/1

Belgrade, 24.04.2019

Pursuant to the Article 14 of Komercijalna Banka AD Beograd Articles of Association, the General Meeting of Shareholders of Komercijalna Banka AD Beograd, at its regular session, on 24.04.2019 adopted the following

D E C I S I O N

ON ADOPTION OF THE ANNUAL REPORT ON OPERATION OF KOMERCIJALNA BANKA AD BEOGRAD AND REGULAR FINANCIAL REPORTS FOR 2018 WITH EXTERNAL AUDITOR'S OPINION

I

Annual Report on operation for 2018 of Komercijalna Banka AD Beograd is hereby adopted, with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd), as formulated in the text which is an integral part of this Decision.

II

Adopted are the 2018 regular financial reports of Komercijalna Banka AD Beograd, with the report and opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd):

1. Balance Sheet as of 31.12.2018.
2. Profit and Loss Statement Covering Period 01.01 through 31.12.2018.
3. Statement of Other Comprehensive Income Covering Period 01.01 through 31.12.2018.
4. Statement of Changes in Equity Covering Period 01.01 through 31.12.2018.
5. Cash Flow Statement Covering Period 01.01 through 31.12.2018.
6. Notes to Financial Statements for 2018.
7. Statistical Report for 2018
   as formulated in the text which is an integral part of this Decision.

III

This decision becomes effective on the day of its passing.

CHAIRPERSON OF
THE GENERAL MEETING OF THE BANK'S SHAREHOLDERS

Marijana Marković

KOMERCIJALNA BANKA AD BEOGRAD
GENERAL MEETING OF BANK'S SHAREHOLDERS

Number: 4586/3
Belgrade, 24 April 2019

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd, the General Meeting of Shareholders of Komercijalna banka AD Beograd at its regular session held on 24.04.2019, passes the

D E C I S I O N

I

The realised profit in the year 2018 and accumulated retained earnings from previous years are distributed in a following manner:

No	DESCRIPTION	Current profit from 2018	Accumulated retained earnings from previous years	TOTAL PROFIT FOR DISTRIBUTION
1	2	3	4	5(3+4)
1.	**PROFIT FOR DISTRIBUTION:**	**8.145.182.014,78**	**902.509.031,12**	**9.047.691.045,90**
	IT IS DISTRIBUTED FOR THE FOLLOWING PURPOSES:			
2.1.	Dividends for ordinary shares (ISIN: RSKOBBE16946, CFI: ESVUFR) pursuant to Dividend Policy (39,8% of realised net profit from 2018)	3.244.999.955,91		3.244.999.955,91
2.2.	Dividends for preference shares (ISIN: RSKOBBE19692, CFI: EPNXAR) pursuant to the Decision on Issue of Preference Shares (at average rate on saving deposits over 12 months):	13.072.850,00		13.072.850,00
	Dividend Date for which the list of shareholders is prepared is 14.04.2019. , in accordance with Article 13a of the Bank's Memorandum of Association			
2.3.	Core capital – Bank's reserves	4.341.672.377,91		4.341.672.377,91
2.4.	Profit share to employees	529.436.830,96		529.436.830,96
2.	**TOTAL DISTRIBUTED PROFIT (2.1. + 2.2. +2.3. +2.4.)**	**8.129.182.014,78**	**0,00**	**8.129.182.014,78**
3.	RETAINED EARNINGS (1-2)	16.000.000,00	902.509.031,12	918.509.031,12

II

Disbursement of the realised profit referred to in Item I, positions 2.1 and 2.2 shall be made upon acquiring conditions as prescribed by the Law on Banks and pursuant to Dividend Policy.
Disbursement of realised profit referred to in Item I, position 2.4 shall be made upon acquiring conditions as prescribed by Law on Banks.

III

The competent authorities of the Bank shall be responsible for implementation of this Decision.

IV

This Decision shall come into force on the day of its adoption.

CHAIRPERSON OF THE GENERAL MEETING OF BANK'S SHAREHOLDERS
Marijana Marković