



**ANNUAL REPORT FOR
2018
MIRABANK A.D.
BELGRADE**

April 2019

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1 Introduction

1.1 Key financial indicators

Mirabank a.d. Beograd			
in thousands RSD	2018	2017	Change
Income statement			
Net interest income	158,730	116,619	36%
Net fee and commission income	22,537	19,110	18%
Other non-interest income	12,399	4,220	194%
Operating expenses	(503,508)	(636,651)	-21%
Net impairment loss on financial assets	(20,937)	(2,886)	625%
Profit after tax	(322,469)	(485,373)	-34%
Balance sheet			
Loans and receivables from banks and other financial organizations	1,000,386	1,706,061	-41%
Loans and receivables from customers	2,125,356	2,200,643	-3%
Deposits and other liabilities to banks, other financial organizations and central bank	276,405	41,250	570%
Deposits and other financial liabilities to clients	2,299,653	2,258,537	2%
Equity	2,133,010	2,468,710	-14%
Total balance sheet assets	5,937,892	6,022,727	-1%
Capital adequacy			
Total risk weighted assets	3,308,590	4,781,182	-31%
Regulatory capital	3,033,941	3,394,550	-11%
Capital adequacy ratio	91.70%	71.00%	21 pp
Key performance indicators			
Cost/Income ratio	259.99%	454.92%	-195 pp
ROA (Return on assets after tax)	-5.43%	-8.06%	3 pp
ROE (Return on equity after tax)	-15.12%	-19.66%	5 pp
Loans to Deposits ratio	92.42%	97.44%	-5 pp
Asset/Number of employees	169,654	143,398	18%
Cost of risk	0.72%	0.11%	61 bp
Resources			
Number of employees	35	42	-7
Number of branches	1	1	0

1.2 Macroeconomic Environment

Serbia's economic program continues to deliver strong results.

Annual inflation, at 2 percent in December, remains in the lower half of the target band. Fiscal performance has remained strong. The general government posted a fiscal surplus of 0.6 percent of GDP in 2018, consistent with Policy Coordination Instrument targets, and public debt declined to about 54 percent of GDP. Continued improvements in labour market participation have been supported by robust employment growth and declining unemployment.

In six years, Serbia has transformed to a low inflation and stable growing economy, with fiscal surplus, declining public debt, significantly reduced external imbalances and labour market recovery. GDP growth significantly surpassed expectations in 2018, growing at an estimated 4.4% on the back of robust investment activity, supported by consumption and exports (despite headwinds from the Eurozone). At 4.4 percent, growth in 2018 was the fastest for over a decade.

In 2018, y/y inflation remained low and stable, moving at the average level of 2.0% and finishing the year at the exact same level. Throughout the year, core inflation hovered around 1.0%, confirming low inflationary pressures. Until the end of the forecast horizon, inflation is expected to move within the target tolerance band, more likely in its lower half. Inflation expectations are anchored around the central target point (3%).

Government budget turned to a surplus in 2017 (1.1% of GDP), and this trend continued in Q1-Q3 2018 (1.5% of GDP). As a result public debt declined by over 14pp of GDP (cumulative) in 2017-18, with an improved currency composition after repayment of two Eurobonds (USD 1.75 bn).

These results were acknowledged by improved credit ratings (S&P, Fitch and Moody's) during 2017 and additionally improved outlook in 2018 (S&P), by successful completion of a precautionary SBA with the IMF and a sharp decline in the country risk premium (historic low in January 2018). In 2018, a 30-month Policy Coordination Instrument with the IMF has been approved.

Macroeconomic stabilization and improvements to the business environment contributed to further FDI growth (EUR 3.2 bn net in 2018), focused on the tradable sectors.

Manufacturing exports retained their growth momentum in 2018 (9.1 % y/y) with 21 of 23 branches posting growth. Services expansion continues, with exports growing at 14.4% y/y, driven by ICT services.

The policy rate was cut in March and April 2018, both times by 25bp, to its current level of 3.0%. Led by demand and supply factors, lending activity increased by 9.9% y/y in December 2018 (12.2% excluding the effects of NPLs write-offs and sales since 2016).

The table below shows the main macroeconomic indicators as reported/forecasted by the NBS.

Serbia	*NBS forecast							
	2012	2013	2014	2015	2016	2017	2018*	2019*
Real GDP, y-o-y %	-0.7	2.9	-1.6	1.8	3.3	2.0	4.4	3.5
Private consumption, in %	-1.7	-1.7	-0.1	-0.3	1.3	1.9	3.5	3.4
Private investment, in %	15.1	-7.7	-5.6	3.5	2.7	10.1	5.0	4.4
Government consumption, in %	0.4	-2.1	0.9	-3.7	1.2	3.3	3.9	1.9
Government investment, in %	7.6	-35.8	13.6	14.0	22.0	-6.4	33.6	15.7
Exports, in %	2.9	18.0	4.3	9.4	11.9	8.2	8.8	8.3
Imports, in %	-0.6	6.5	5.1	4.0	6.7	11.1	11.2	7.7
Unemployment Rate, in %	23.9	22.1	19.2	17.7	15.3	13.5	11.3	n/a
Nominal Wages, in %	9.0	6.2	1.4	-0.2	3.7	3.9	6.5	n/a
Money Supply (M3), in %	9.4	4.6	7.6	6.6	11.6	3.6	14.5	n/a
CPI, in %	12.2	2.2	1.7	1.5	1.6	3.0	2.0	chart 2
National Bank of Serbia Key Policy Rate, in %	11.3	9.5	8.0	4.5	4.0	3.5	3.0	3.0
Current Account Deficit BPM-6 (% of GDP)	10.9	5.8	5.6	3.5	2.9	5.2	5.2	5.0

Table: Macroeconomic Overview; Source: NBS

1.3 Serbian Banking Sector

Banking sector stability has been preserved and further reinforced. Encouraged by the NBS measures, the share of NPLs in total loans declined to 5.7% at end-December 2018 (preliminary data), which is the lowest level since 2008 when this indicator of portfolio quality was introduced. Capital adequacy indicators are even stronger after the application of Basel III standards in Serbia.

Serbia	2012	2013	2014	2015	2016	2017	2018
Number of banks	32	30	29	30	31	29	27
Employees	28,394	26,380	25,106	24,257	23,847	23,055	22,830
Branches	2,243	1,989	1,787	1,730	1,719	1,627	1,598
Share of foreign banks, %	75.2	74.3	74.5	76.1	76.7	76.9	75.4
Assets (net), EUR m	25,322	24,827	24,545	25,059	26,253	27,993	30,610*
Capital, EUR m	5,198	5,186	5,074	5,090	5,122	5,631	5,757*
Loans (gross), EUR m	17,273	16,140	16,170	16,175	16,442	17,565	19,408
Of which gross NPL, EUR m	3,217	3,448	3,483	3,491	2,800	1,730	1,108
Gross NPL ratio, %	18.6	21.4	21.5	21.6	17.0	9.8	5.7
IFRS impairment of NPLs	50.0	50.9	54.9	62.3	67.8	58.1	61.5*
Deposits, EUR m	14,936	15,067	15,637	16,523	18,242	19,926	23,110
Pretax Income ² , EUR m	102.5	-18.0	29.0	80.0	172.0	579.8	587.9*
CAR, %	19.9	20.9	20.0	20.9	21.8	22.6	22.8
CET1 ratio, %	-	-	-	-	-	21.5	21.8
Leverage, %	-	-	-	-	-	10.1	12.4
Liquidity ratio	2.1	2.4	2.2	2.1	2.1	2.0	2.0
Liquidity coverage ratio, %	-	-	-	-	-	239.5	214.6
FX ratio, %	5.5	4.4	3.9	4.4	2.7	2.9	4.8
ROA, %	0.4	-0.1	0.1	0.3	0.7	2.1	2.2
ROE, %	2.0	-0.4	0.6	1.6	3.4	10.6	11.3
Net interest margin, %	4.3	4.2	4.3	4.3	3.9	3.7	3.6

Table: NBS Banking Sector Overview; Source: NBS

Aiming to boost lending activity furthermore, as well as to maintain inflation within the target band, the NBS lowered the key policy rate to a record low, which further contributed to the lowering of corporate and household borrowing costs in the domestic currency, which consequently increased dinar lending activity by 10.4% compared to the end of 2017. Local currency loans were mostly disbursed to the household sector where the increase was 16.7% y-o-y while in corporate segment there was a decrease of 4.9%. Euro-indexed and euro loans still make up the largest part of corporate loans and they recorded an increase of 10.8% compared to the previous year, while household loans in foreign currency recorded an increase of 8.5%, mainly driven by the mortgage lending. Interest rates have recorded decrease in all categories and currencies, as shown in the graphs below.

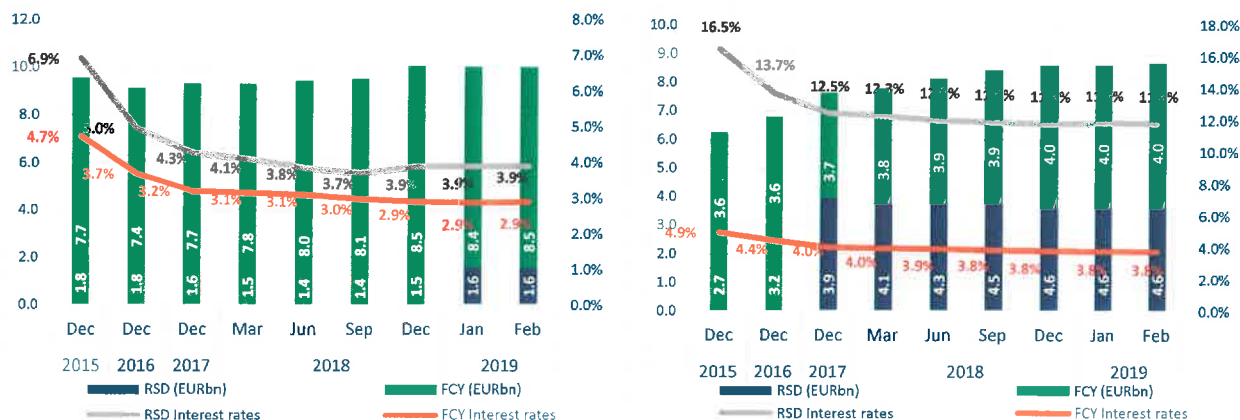


Chart: Loans to Corporate Sector (left) and Household Sector (right) – Currencies and Interest Rates; Source: NBS Rates

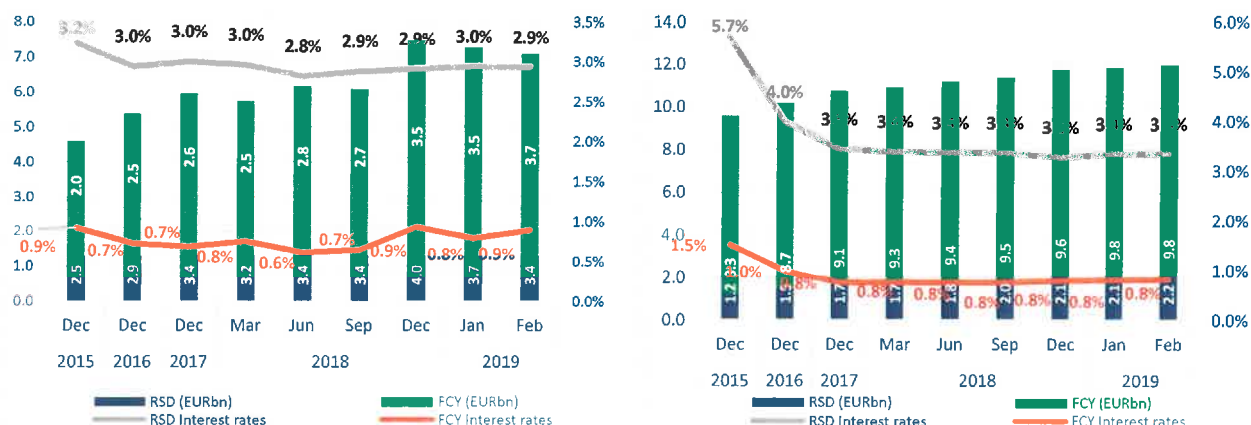


Chart: Deposits from Corporate Sector (left) and Household Sector (right) – Currencies and Interest Rates; Source: NBS

The main source of bank funding in Serbia in 2018 consisted of received deposits that include both household and corporate deposits, which grew by 9.5% and 25.5% respectively, as well as deposits received from banks and other financial institutions. Total customer deposits recorded a growth of 15.2% y-o-y. Interest rates remained on same levels compared to 31/12/2017.

2 About Mirabank

2.1 Establishment

The founder of Mirabank a.d. Beograd (hereinafter: the Bank), Duingraaf Financial Investments B.V., Hoogoorddreef 15, 1101BA Amsterdam, the Netherlands (hereinafter: the Founder), obtained the preliminary permit to incorporate the Bank with the Decision of the National Bank of Serbia No. IO NBS 32 dated August 18, 2014.

The National Bank of Serbia issued a Decision No. IO NBS 58 dated December 16, 2014, thus granting the operating license to the Bank.

Upon obtaining the approval from the National Bank of Serbia for the acts of the Founding Assembly of the Bank (the Decision on Appointment of the President and Members of the Board of Directors of the Bank, the Decision on Appointment of the President and Members of the Executive Board of the Bank, the Decision on the Adoption of the Articles of Association of the Bank, the Decision on the First Share Issue of the Bank, the Decision on the Adoption of the Strategy and Business Policy of the Bank), the Bank was registered with the Companies Registry based on the Decision of the Serbian Business Registers Agency BD 8779/2015 dated February 5, 2015.

The Founder of the Bank and the Bank are not members of the banking group. The initial capital of the Bank is EUR 15 million in RSD counter value; capital conversion was performed on April 6, 2015, upon opening of the Bank's account with the National Bank of Serbia, following which the Bank began conducting its operations through that account and payment transactions, and at the same time it initiated the reporting process to the National Bank of Serbia.

On May 11, 2016, with registration in the Central Securities Depository and Clearing House, the Bank's capital was increased through the II share issue in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, after which the total share capital of the Bank (along with the initial issue in the amount of RSD 1,790,700 thousand) amounted to RSD 3,631,200 thousand. Pursuant to the Decision BD 39191/2016 of May 16, 2016, the Business Registers Agency completed registration of changes/increase in share capital.

The headquarter of the Bank is in Belgrade, 1 Španskih boraca Street in Novi Beograd, and its operations are conducted in 1 branch office in the territory of the Republic of Serbia at the same address. As at 31 December, 2018, the Bank had 35 employees (as at 31 December 2017 had 42 employees).

The Bank's Company registration number is 21080608. The Tax Identification Number assigned to the Bank is 108851504.

In 2018 the Bank did not acquire any Treasury Shares nor does it have any Treasury Stock (stock of its own shares).

2.2 Major Strategic Objectives

As an ultimate roadmap to the Vision, the Bank's Management has defined top Strategic goals for the next three years:

Mirabank's vision is to become recognised partner of trust withn target industries and focal point of UAE-Serbia economic relations

Focus – select a few industries where to build competitive advantage

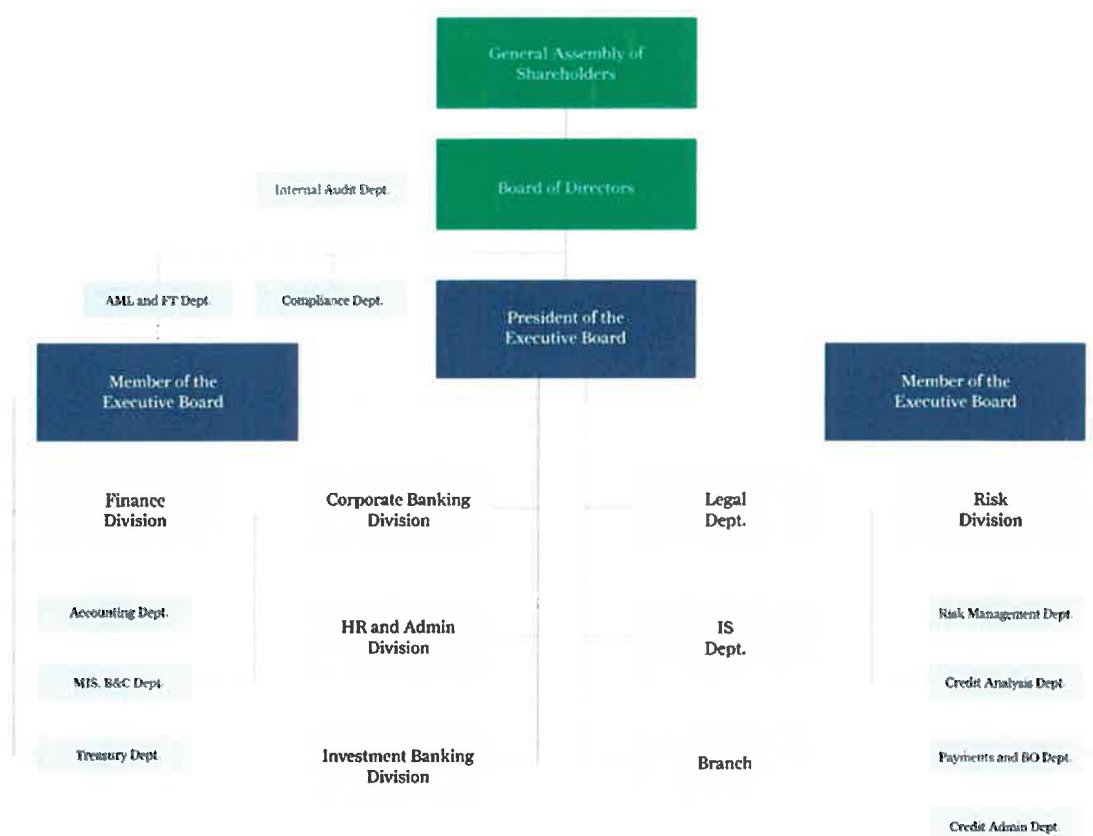
Community engagement – become fully embeded in the selected communities in order to generate opportunities instead of just searching for existing opportunities

Develop clear USP (Unique Selling Proposition)

2.3 The team

Board of Directors	Mr. Fadhel Al Ali, Chairman
	Mr. Majed Odeh, Member
	Mr. Mahmood Moham'ed Al Mahmood, Member
	Mr. Mustafa Kheriba, Member
	Mr. Vladimir Radić, Independent member
	Mr. Dejan Nikolić, Independent member
Executive Committee	Mr. Nikola Mihailović, President
	Mr. Saša Mićević, Member
	Ms. Mirjana Garapić Zakanyi, Member

2.4 Organization



2.5 Investments in Environmental Sustainability and Social Responsibility

Mirabank is committed to improving the environment through continuous digitalization of its processes and reducing resource consumption in the ordinary course of business. One of our main goals in this field was transformation of the documentation exchange with clients and third parties in order to reduce the use of paper printouts and paper forms into e-forms, both for internal communication as well as in exchange with clients and third parties. In instances where the paper work is an absolute necessity, we aim to selecting, whenever possible, recycled paper instead of the standard one.

In addition, one of our business focuses is renewable energy sector, where during 2018 Mirabank participated in the largest wind farm project in the country and one of the largest in the region, with planned operations commencement in 2019.

2.6 Research and Development

In 2018, the Bank continued to explore opportunities for further development of flexible and digitally prepared business models in order to promote efficiency, risk management and sustainable growth.

3 Products and Services

3.1 Corporate banking

Our main goal is to simplify our clients' dealing with their bank by providing as simple and efficient as possible solutions that cover their needs in timely and professional manner.

The palette of products and services we offer to corporate clients consists of the following:

Financing

- Working capital loans
- Investment loans

Cash management services

- Domestic payments
- International payments
- Current accounts
- O/N deposits
- Term deposits
- FX operations
- E-banking services

Documentary business

- Letters of Guarantee
- Letters of Credit

Advisory services

- M&A advisory

3.2 Private individuals banking

As each client is unique, we tailor our offers and services to your specific needs, taking all aspects carefully into account. Clients value our personalised approach, reliability as a partner, and the unique experience we deliver.

Products and services offered to private individuals are the following:

Account management services

- Current accounts (RSD and FX)
- E-banking services
- Mobile banking services

Deposits

- A vista savings
- Term deposits

4 Our Business Focus 2019-2021

Mirabank 2021 vision goals are focused on building reputation, proving self-sustainability and showing potential for further growth. Bank looks to develop on the opportunity to become recognised as partner of trust within selected industries and focal point of UAE – Serbia economic relations.

Bank aims to increase loan portfolio, secure stable funding, improve margins and develop cash management activities in order to increase commission income.

5 Risk Management

5.1 Risk Profile and Risk Appetite

Key objectives of the Bank's Risk Management System is to identify the most relevant risks that the Bank may be exposed to and to align its business plans and exposure to risks as the direct result of said plans with a targeted, i.e. planned risk appetite. Bank strives to optimise risk-taking decisions vis-a-vis expected levels of return, as well as to ensure that a strong and independent control function has been established within the Bank, ready to address the organisation's challenges as well as the external environment and to ensure that business growth is adequately supported by an efficient risk management infrastructure.

Throughout its performance, the Bank actively undertakes and manages risks, relying on the following principles:

- Level of risk undertaken is within the Bank's risk appetite and tolerance toward risk;
- All risk has to be approved through the Risk Management System;
- Reward from the business venture should compensate for the risk relevant to said venture;
- Risk is to be continuously monitored; and
- Risk conscience is to be promoted and the risk management culture is to be strengthened, as it contributes to strengthening the Bank's resilience.

Under risk appetite, the Bank considers its assessment of the structure and levels of all risks to which the Bank is exposed or may be exposed in its operations. The Bank's Business Strategy envisages operations that will inevitably affect the Bank's exposure to a particular set of risks. Key risks to which the Bank is exposed are credit risk, liquidity risk, operational risk, interest rate risk, FX risk and others.

The Bank's risk appetite is considered the level of risk the Bank intends to take on in achieving its business strategy and strategic objectives. Risk tolerance is understood as the highest acceptable level of risk the Bank takes on in its operations.

The ability to take risks depends on the Bank's financial, liquidity and capital situation, i.e. constraints. The willingness to take risks depends on the Bank's shareholder perspective concerning its profile and positioning.

The Bank's risk appetite is formulated as a function of the needed regulatory capital for all risks it is exposed to, as well as a function of needed regulatory capital for individual risks the Bank exposes itself to. A formulated risk appetite sets the capacity of the Bank to assume risks in its business activities.

5.2 IFRS 9 Implementation and Impact

In 2018, the Bank has successfully implemented the IFRS 9. The changes IFRS 9 introduces affected the concept of classification and measurement, impairment and hedge accounting of financial assets. IFRS 9 resulted in (among other things), provision increase in comparison to IAS 39 in cases when credit risk indicators are deteriorated. The new standard IFRS 9 requires an impairment allowance against the amortized cost of financial assets held at amortized cost or FVOCI (fair value reported in other comprehensive income). The change in this allowance is reported in profit and loss. For most such assets, when the asset is acquired the impairment allowance is measured as the present value of credit losses from default events projected over the next 12 months. The allowance remains based on the expected losses from defaults over the next 12 months unless there is a significant increase in credit risk. If there is a significant increase in credit risk, the allowance is measured as the present value of all credit losses projected for the instrument over its full lifetime. If the credit risk recovers, the allowance can once again be limited to the projected credit losses over the next 12 months. The new model requires recognition of full lifetime losses more quickly.

Within the scope of the IFRS 9 project, the Bank has implemented new rules for classification of its financial assets and liabilities, by performing business model and SPPI tests. Bank has developed and implemented a new methodology for assigning the financial assets into stages, and for expected credit loss calculation (i.e. asset impairment). Bank has put in production specialized IT solution for IFRS 9 calculation and reporting purposes.

5.3 NPLs & Collection

In its Risk Management Strategy the Bank has determined its long-term objectives concerning the level of distressed assets. The Bank's distressed assets are its non-performing exposures as defined by the Credit Risk Management Policy, which is in compliance with the NBS Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items. The Bank has determined the basic principles of Distressed Asset Management, and the highest acceptable level of distressed assets.

As at 31 December 2018, the Bank has no non-performing loans (NPLs). For the strategy planning period, NPLs are planned at a relatively low level (lower than the average for Serbia's banking sector) and for the following years (planning period: 2019 to 2021). This represents one of the aims and most important principles of Distressed Asset Management.

The Bank uses wide spectar of credit risk management techniques to keep the NPL level in line with the defined levels, such as well defined credit process, robust credit analysis, approval of exposures to clients in relation to their credit capacity, strict monitoring of credit exposures post disbursement, early detection of deteriorating clients, well structured collection process, requirements with regard to credit protection instruments and other.

For the purpose of effective Distressed Assets Management, Bank has designated a position within its organization structure specialized in this area and has introduced set of internal acts that govern Bank activities and rules within this segment. Bank's Recovery Plan plays an important role in risk mitigation related to distressed asset management for all the risks arising from adverse developments of bank performance or external factors affecting the banking business.

6 Cash and balances with the central bank

<i>In thousands of Serbian Dinars</i>	2018	2017
In dinars		
Cash in hand	9,537	5,736
Current (gyro) account	283,110	50,431
Balances with NBS other than current (gyro) account and mandatory reserves	87	180,030
In foreign currency		
Cash in hand	13,872	30,154
Mandatory cash balances with NBS	241,864	116,474
Total cash and balances with the central bank	548,470	382,825

The table below discloses the credit quality of cash and balances with the central bank based on credit risk grades at 31 December 2018. Refer to Note 29 for the description of the Bank's credit risk grading system.

<i>In thousands of Serbian Dinars</i>	Balances with the NBS, including mandatory reserves
- Excellent	525,061
Total cash and balances with the central bank, excluding cash in hand	525,061

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

The credit quality of cash and balances with the central bank at 31 December 2017, was as follows:

<i>In thousands of Serbian Dinars</i>	Balances with the NBS, including mandatory reserves
<i>Neither past due nor impaired</i>	
- National Bank of Serbia	346,935
Total cash and balances with the central bank, excluding cash in hand	346,935

6 Cash and balances with the central bank (Continued)

The gyro account balance includes the RSD mandatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Mandatory Reserves Held with the NBS. In accordance with the said Decision, the mandatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. The reserve is thereafter held on the Bank's gyro account. In 2018 NBS paid interest on the balance of the Bank's mandatory RSD reserve at the annual interest rate of 1.75% until March, at 1.50% in April, and at 1.25% from May.

The mandatory foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Mandatory Reserves Held with the NBS. In accordance with the said Decision, the mandatory foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month. The mandatory foreign currency reserve rates remained unaltered during 2018 and equaled 20% for foreign currency deposits with maturities of up to 2 years and 13% for foreign currency deposits with maturities of over 2 years. The rate applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index was 100%.

The Bank is under obligation to maintain the average daily balance of the allocated foreign currency reserve in the amount of the calculated foreign currency mandatory reserve on the foreign currency accounts held with NBS. Foreign currency mandatory reserve is non interest bearing.

7 Loans and receivables from banks and other financial institutions

<i>In thousands of Serbian Dinars</i>	2018	2017
Correspondent accounts and overnight placements with other banks	437,161	806,414
Placements with other banks	443,504	823,407
Placement/deposits with other financial institutions	119,848	76,363
Less credit loss allowance	(126)	(122)
Total loans and receivables from banks and other financial organisations	1,000,387	1,706,062

The Bank considers Correspondent accounts and overnight placements with other banks as well as Placements with other banks with original maturities of less than three months as equivalent to the category Cash and Cash Equivalents and for the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The Bank has recognized rather insignificant amount of credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

7 Loans and receivables from banks and other financial institutions (Continued)

The following table contains an analysis of loans and receivables from banks and other financial institutions balances by credit quality at 31 December 2018 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 29 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other financial institutions balances. The carrying amount of loans and receivables from banks and other financial institutions balances at 31 December 2018 below also represents the Bank's maximum exposure to credit risk on these assets:

<i>In thousands of Serbian Dinars</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Correspondent accounts and overnight placements with other banks					
- Excellent	437,161	-	-	-	437,161
Gross carrying amount	437,161	-	-	-	437,161
Credit loss allowance	(15)	-	-	-	(15)
Carrying amount	437,146	-	-	-	437,146
Placements with other banks					
- Excellent	443,504	-	-	-	443,504
Gross carrying amount	443,504	-	-	-	443,504
Credit loss allowance	(15)	-	-	-	(15)
Carrying amount	443,488	-	-	-	443,488
Placements with other financial institutions					
- Excellent	60,764	-	-	-	60,764
- Good	59,085	-	-	-	59,085
Gross carrying amount	119,848	-	-	-	119,848
Credit loss allowance	(96)	-	-	-	(96)
Carrying amount	119,752	-	-	-	119,752
Total loans and receivables from banks and other financial organisations (gross carrying amount)	1,000,512	-	-	-	1,000,512
Credit loss allowance	(126)	-	-	-	(126)
Total loans and receivables from banks and other financial organisations (carrying amount)	1,000,387	-	-	-	1,000,387

7 Loans and receivables from banks and other financial institutions (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2017, is as follows:

<i>In thousands of Serbian Dinars</i>	Correspondent accounts and overnight placements	Placements with other banks	Placement/deposits with other financial institutions	Total
<i>Neither past due nor impaired</i>				
- Excellent	437,161	443,504	60,764	941,428
- Good	-	-	59,085	59,085
Total neither past due nor impaired	437,161	443,504	119,848	1,000,512
Less provision for impairment	(15)	(15)	(96)	(126)
Total loans and receivables from banks and other financial organisations (carrying amount)	437,146	443,488	119,752	1,000,387

At 31 December 2018 and 31 December 2017, due from other banks balances are not collateralised.

The credit loss allowance for due from other banks recognised in 2018 year is impacted by a variety of factors, as described below:

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following table explains the changes in the credit loss allowance and gross carrying amount due from other banks between the beginning and the end of the annual period due to these factors:

<i>In thousands of Serbian Dinars</i>	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans and receivables from banks and other financial institutions								
At 1 January 2018	(591)	-	-	(591)	1,706,110	-	-	1,706,110
<i>Movements with impact on credit loss allowance charge for the period:</i>								
New originated or purchased	(192)	-	-	(192)	4,809,211	-	-	4,809,211
Derecognised during the period	671	-	-	671	(5,514,808)	-	-	(5,514,808)
Changes risk parameters	(14)	-	-	(14)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	465	-	-	465	(705,597)	-	-	(705,597)
At 31 December 2018	(126)	-	-	(126)	1,000,512	-	-	1,000,512

7 Loans and receivables from banks and other financial institutions (Continued)

Movements in provision for impairment of due from other banks in 2017 year were as follows:

<i>In thousands of Serbian Dinars</i>	Loans and receivables from banks and other financial organisations
Credit loss allowance at 1 January 2017	2
Provision for impairment during the year	120
Credit loss allowance at 31 December 2017	122

8 Securities

<i>In thousands of Serbian Dinars</i>	2018	2017
Debt securities at FVOCI	1,988,454	-
Debt securities AFS	-	1,387,095
Total investments in debt securities	1,988,454	1,387,095

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

<i>In thousands of Serbian Dinars</i>	Debt securities at FVOCI 2018	Debt securities AFS 2017
Serbian government bonds	1,988,454	1,387,095
Total investments in debt securities at 31 December 2018 (fair value)	1,988,454	1,387,095

8 Securities (Continued)

(a) Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018. For the particular exposures, as at 31 December 2018 the fair value adjustment from AC to FV is positive and higher than calculated ECL allowance based on credit risk grades. In such case, the Bank recognizes expected credit loss in its income statement, without recognition of ECL allowance as deductible item from the AC, but rather as an increase of the relevant reserve in its equity position.

<i>In thousands of Serbian Dinars</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Serbian government bonds					
- Excellent	1,972,933	-	-	-	1,972,933
Total AC gross carrying amount	1,972,933	-	-	-	1,972,933
Less credit loss allowance	(2,597)	-	-	-	(2,597)
Less fair value adjustment from AC to FV	18,117	-	-	-	18,117
Carrying value (fair value)	1,988,454	-	-	-	1,988,454
Total investments in debt securities measured at FVOCI (fair value)	1,988,454	-	-	-	1,988,454

The debt securities at FVOCI are not collateralised.

At 31 December 2018 debt securities at FVOCI have not been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds.

Movements in the credit loss allowance and in the gross amortised cost amount of Serbian government bonds at FVOCI were as follows.

8 Securities (Continued)

(a) Investments in debt securities at FVOCI (continued)

<i>In thousands of Serbian Dinars</i>	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	(12-months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit impaired)		(12-months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit impaired)	
Serbian government bonds								
At 1 January 2018	(3,401)	-	-	(3,401)	1,359,740	-	-	1,359,740
<i>Movements with impact on credit loss allowance charge for the period:</i>								
New originated or purchased	(907)	-	-	(907)	863,785	-	-	863,785
Derecognised during the period	1,711	-	-	1,711	(250,591)	-	-	(250,591)
Total movements with impact on credit loss allowance charge for the period	804	-	-	804	(613,194)	-	-	(613,194)
At 31 December 2018	(2,597)	-	-	(2,597)	1,972,933	-	-	1,972,933

Analysis by credit quality of debt securities AFS outstanding at 31 December 2017 is as follows:

<i>In thousands of Serbian Dinars</i>	Serbian government bonds	Total
<i>Neither past due nor impaired</i>		
- Excellent	1,387,095	1,387,095
Total neither past due nor impaired	1,387,095	1,387,095

The debt investment securities AFS are not collateralised nor provided as a pledge to any of the Bank's counterparties.

9 Loans and Advances to Customers

<i>In thousands of Serbian Dinars</i>	2018	2017
Gross carrying amount of loans and advances to customers at AC	2,129,676	2,211,272
Less credit loss allowance	(4,320)	(10,628)
Total carrying amount of loans and advances to customers at AC	2,125,356	2,200,644

The Bank does not hold a portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. As a result, all loans and advances were classified as at AC from the date of initial recognition. The carrying amount presented in the balance sheet best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2018 and 31 December 2017 are disclosed in the table below:

<i>In thousands of Serbian Dinars</i>	31-Dec-18			31-Dec-17		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
<i>Loans to corporate customers</i>						
Standard lending	2,129,676	(4,320)	2,125,356	2,211,272	(10,628)	2,200,644
Total loans and advances to customers at AC	2,129,676	(4,320)	2,125,356	2,211,272	(10,628)	2,200,644

Standard lending relates to loans issued to large commercial entities under the standard terms, mainly for working capital financing.

9 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

<i>In thousands of Serbian Dinars</i>	Credit loss allowance			Total	Gross carrying amount			Total
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)		Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	
Standard lending								
At 1 January 2018	(5,695)	(45)	(4,944)	(10,684)	2,164,689	26,788	19,794	2,211,271
<i>Movements with impact on credit loss allowance charge for the period:</i>								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	42	-	(21,929)	(21,887)	(23,647)	-	23,647	-
New originated or purchased	(2,974)	-	-	(2,974)	1,878,977	-	-	1,878,977
Derecognised during the period	4,307	45	4,944	9,296	(1,905,032)	(929)	(21,540)	(1,927,501)
Changes in accrued interest	-	-	-	-	(491)	-	(60)	(551)
Total movements with impact on credit loss allowance charge for the period	1,376	45	(16,985)	(15,564)	(50,194)	(929)	2,048	(49,075)
<i>Movements without impact on credit loss allowance charge for the period:</i>								
Write-offs	-	-	21,929	21,929	-	-	(21,929)	(21,929)
FX and other movements	-	-	-	-	(4,522)	(64)	87	(4,500)
Modification of contractual cash flows	-	-	-	-	(6,091)	-	-	(6,091)
At 31 December 2018	(4,320)	-	-	(4,320)	2,103,882	25,794	-	2,129,676

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment of loans to individuals were as follows during 2017

<i>In thousands of Serbian Dinars</i>	Standard lending	Total
Provision for loan impairment at 1 January 2017	10,227	10,227
Provision for impairment during the year	401	401
Provision for loan impairment at 31 December 2017	10,628	10,628

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 29. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

<i>In thousands of Serbian Dinars</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Standard lending					
- Excellent	1,007,907	-	-	-	1,007,907
- Good	1,090,569	25,794	-	-	1,116,363
- Special monitoring	5,407	-	-	-	5,407
Gross carrying amount	2,103,882	25,794	-	-	2,129,676
Credit loss allowance	(4,320)	-	-	-	(4,320)
Carrying amount	2,099,562	25,794	-	-	2,125,356

For description of the credit risk grading used in the tables above refer to Note 29.

9 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2017 is disclosed as follows:

<i>In thousands of Serbian Dinars</i>	Corporate loans	Total
<i>Neither past due nor impaired</i>	2,138,329	2,138,329
Total neither past due nor impaired	2,138,329	2,138,329
<i>Past due but not impaired</i>		
- less than 30 days overdue	53,010	53,010
- 181 to 360 days overdue	70	70
- over 360 days overdue	66	66
Total past due but not impaired	53,146	53,146
<i>Loans individually determined to be impaired (gross)</i>		
- 30 to 90 days overdue	19,797	19,797
Total individually impaired loans (gross)	19,797	19,797
Less impairment provisions	(10,628)	(10,628)
Total loans and advances to customers	2,200,644	2,200,644

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of Serbian Dinars</i>	2018		2017	
	Amount	%	Amount	%
- Agriculture, forestry and fishing	117,687	5.54%	122,719	5.58%
- Mining, manufacturing, water supply	173,374	8.16%	290,627	13.21%
- Electricity supply	23,646	1.11%	-	0.00%
- Construction	390,233	18.36%	333,472	15.15%
- Wholesale and retail trade	1,302,036	61.26%	1,265,276	57.50%
- Transportation and storage	113,590	5.34%	109,006	4.95%
- Real estate	4,787	0.23%	79,543	3.61%
- Other	3	0.00%	-	0.00%
Total loans and advances to customers carried at AC	2,125,356	100.00%	2,200,643	100.00%

9 Loans and Advances to Customers (Continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

<i>In thousands of Serbian Dinars</i>	Standard lending	Total
Loans collateralised by:		
- residential real estate	64,985	64,985
- other real estate	241,432	241,432
- cash deposits	52,156	52,156
- other assets	277,165	277,165
Total	635,738	635,738
Unsecured exposures	1,489,618	1,489,618
Total carrying value loans and advances to customers at AC	2,125,356	2,125,356

Information about collateral for loans to corporate customers is as follows at 31 December 2017:

<i>In thousands of Serbian Dinars</i>	Standard lending	Total
Loans collateralised by:		
- residential real estate	5,941	5,941
- other real estate	261,036	261,036
- cash deposits	12,851	12,851
- other assets	277,607	277,607
Total	557,435	557,435
Unsecured exposures	1,643,208	1,643,208
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	2,200,643	2,200,643

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

9 Loans and Advances to Customers (Continued)

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

<i>In thousands of Serbian Dinars</i>	31 December 2018
<i>Loans to corporate customers</i>	
Standard lending	25,794
Total significantly over-collateralised loans and advances to customers carried at AC	25,794

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). At 31 December 2018 the Bank had no credit impaired exposures. The effect of collateral at 31 December 2017 is presented for individually impaired loans as follows:

<i>In thousands of Serbian Dinars</i>	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
<i>Loans to corporate customers</i>				
Standard lending	-	-	14,853	-

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to three years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are after a valuation haircut of 20-50% applied to consider liquidity and quality of the pledged assets.

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2018:

<i>In thousands of Serbian Dinars</i>	2018
<i>Loans to corporate customers</i>	
Standard lending	21,929
Total	- 21,929

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

9 Loans and Advances to Customers (Continued)

Information about modifications of loans that have not resulted in derecognition is as follows:

<i>In thousands of Serbian Dinars</i>	Loans and advances to customers
Year ended 31 December 2018	
Amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	591,653
Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(6,212)
At 31 December 2018	
Gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year	584,826

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 29.

10 Other Assets

<i>In thousands of Serbian Dinars</i>	2018	2017
Other financial assets at AC	4,163	3,275
Less credit loss allowance	(2,458)	(639)
Total carrying amount of other financial assets	1,705	2,636
Other non-financial assets	9,560	12,212
Less allowance	(636)	(616)
Total carrying amount of other non-financial assets	8,924	11,596
Total other assets	10,629	14,232

10 Other Assets (Continued)

The table below contains an analysis of the credit risk exposure of other financial assets at AC. The carrying amount of other financial assets at AC at 31 December 2018 below also represents the Bank's maximum exposure to credit risk on these assets:

<i>In thousands of Serbian Dinars</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Other financial assets					
- Excellent	21	-	-	-	21
- Good	14	15	-	-	29
- Satisfactory	19	-	-	-	19
- Special monitoring	-	-	3,559	-	3,559
- Default	-	-	536	-	536
Gross carrying amount	53	15	4,094	-	4,163
Credit loss allowance	(0)	(0)	(2,457)	-	(2,458)
Carrying amount	53	15	1,637	-	1,705

Other financial assets relate mainly to fee receivables from banking transactions, as well as from advisory services, thus are not secured by any kind of collateral.

Analysis by credit quality of other financial assets outstanding at 31 December 2017 is as follows:

<i>In thousands of Serbian Dinars</i>	Other financial assets	Total
<i>Neither past due nor impaired</i>	3,145	3,145
Total neither past due nor impaired	3,145	3,145
<i>Past due but not impaired</i>		
- less than 30 days overdue	52	52
- 30 to 90 days overdue	2	2
- 181 to 360 days overdue	38	38
- over 360 days overdue	36	36
Total past due but not impaired	128	128
<i>Other financial assets determined to be impaired (gross)</i>		
- less than 30 days overdue	2	2
Total individually impaired other financial assets (gross)	2	2
Less impairment provisions	(639)	(639)
Total other financial assets	2,636	2,636

10 Other Assets (Continued)

<i>In thousands of Serbian Dinars</i>	31-Dec-18			31-Dec-17		
	Gross carrying amount	Allowance / Accumulated depreciation	Carrying amount	Gross carrying amount	Allowance / Accumulated depreciation	Carrying amount
<i>Non-financial assets</i>						
Prepayments for goods and services	7,952	-	7,952	11,492	-	11,492
Inventories	636	(636)	-	616	(616)	-
Other assets	972	-	972	104	-	104
Total other non-financial assets	9,560	(636)	8,924	12,212	(616)	11,596

Movements in the credit loss allowance and in the gross amortised cost amount of other financial assets were as follows.

<i>In thousands of Serbian Dinars</i>	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Other financial assets</i>								
At 1 January 2018	(577)	(0)	(137)	(714)	2,662	0	139	2,801
<i>Movements with impact on credit loss allowance charge for the period:</i>								
<i>Transfers:</i>								
- to lifetime (from Stage 1 to Stage 2)	0	(0)	-	-	(3)	3	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	32	-	(32)	-	(71)	-	71	-
New originated or purchased	(1)	(0)	(110)	(111)	15,487	107	4,255	19,850
Derecognised during the period	75	0	122	197	(18,022)	(96)	(165)	(18,283)
(Increase) / decrease due to change of risk	470	(0)	(2,506)	(2,036)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	577	(0)	(2,526)	(1,950)	(2,609)	15	4,161	1,567
<i>Movements without impact on credit loss allowance charge for the period:</i>								
Write-offs	-	-	206	206	-	-	(206)	(206)
At 31 December 2018	(0)	(0)	(2,457)	(2,458)	53	15	4,094	4,163

10 Other Assets (Continued)

Movements in the provision for impairment of other financial assets during 2017 were as follows:

<i>In thousands of Serbian Dinars</i>	Other financial assets	Total
Provision for other financial assets impairment at 1 January 2017	(522)	(522)
Provision for impairment during the year	(733)	(733)
Provision for other financial assets impairment at 31 December 2017	(1,255)	(1,255)

11 Premises and Equipment

<i>In thousands of Serbian Dinars</i>	Premises	Office and computer equipment	Construction in progress	Total premises and equipment
Cost at 1 January 2017	77,641	121,265	1,745	200,651
Accumulated depreciation	(19,402)	(30,825)	-	(50,227)
Carrying amount at 1 January 2017	58,239	90,440	1,745	150,424
Additions	-	-	11,369	11,369
Transfers	128	9,937	(10,065)	-
Disposals	(7,189)	-	-	(7,189)
Depreciation charge	(13,201)	(27,013)	-	(40,214)
Carrying amount at 31 December 2017	37,977	73,364	3,049	114,390
Cost at 31 December 2017	70,580	131,202	3,049	204,831
Accumulated depreciation	(32,603)	(57,838)	-	(90,441)
Carrying amount at 31 December 2017	37,977	73,364	3,049	114,390
Additions	-	-	533	533
Transfers	2,883	202	(3,084)	1
Disposals	-	(174)	-	(174)
Depreciation charge	(15,762)	(26,919)	-	(42,682)
Carrying amount at 31 December 2018	25,098	46,473	498	72,068
Cost at 31 December 2018	73,463	131,230	498	205,191
Accumulated depreciation	(48,365)	(84,757)	-	(133,123)
Carrying amount at 31 December 2018	25,098	46,473	498	72,068

12 Intangible assets

<i>In thousands of Serbian Dinars</i>	Software	Licenses	Construction in progress	Total
Cost at 1 January 2017	253,732	22,960	7,274	283,966
Accumulated depreciation	(40,922)	(4,107)	-	(45,029)
Carrying amount at 1 January 2017	212,810	18,853	7,274	238,937
Additions	-	-	15,783	15,783
Transfers	19,977	-	(19,977)	-
Disposals	-	-	-	-
Depreciation charge	(38,212)	(4,829)	-	(43,041)
Carrying amount at 31 December 2017	194,575	14,024	3,080	211,679
Cost at 31 December 2017	273,709	22,960	3,080	299,749
Accumulated depreciation	(79,134)	(8,936)	-	(88,070)
Carrying amount at 31 December 2017	194,575	14,024	3,080	211,679
Additions	-	-	19,899	19,899
Transfers	28,292	2,307	(22,980)	7,619
Disposals	-	-	-	-
Depreciation charge	37	(5,421)	-	(46,665)
Carrying amount at 31 December 2018	181,623	10,909	(0)	192,532
Cost at 31 December 2018	302,001	25,267	(0)	327,267
Accumulated depreciation	(120,378)	(14,358)	-	(134,736)
Carrying amount at 31 December 2018	181,623	10,909	(0)	192,532

13 Deposits and other liabilities to banks, other financial institutions and central bank

<i>In thousands of Serbian Dinars</i>	2018	2017
Current accounts of other financial institutions	551	173
Term deposits of other financial institutions	275,783	41,002
Fees payable to central bank	71	75
Total deposits and other liabilities to banks, other financial institutions and central bank	276,405	41,250

14 Deposits and other liabilities to customers

<i>In thousands of Serbian Dinars</i>	2018	2017
State and public organisations	730,253	769,987
- Current accounts	31,114	25,653
- Term deposits	699,139	744,334
Other legal entities	1,266,964	1,173,775
- Current accounts	632,287	479,639
- Term deposits	634,677	694,136
Individuals	302,435	314,774
- Current accounts	78,389	81,609
- Term deposits	224,046	233,165
Total deposits and other liabilities to customers	2,299,652	2,258,536

Short-term deposit are term deposits denominated in RSD and foreign currency with maturity up to 12 months. These deposits have interest rates ranging from 1.30% - 2.2% per annum (on foreign currency deposits) or from 0.30 to 4.30% (on RSD deposits).

Long-term foreign currency deposits from individuals were collected at the interest rate from 1.40% to 1.50% annually, while those from legal entities were gathered at rates ranging up to 2.5%.

<i>In thousands of Serbian Dinars</i>	2018	2017
Local currency	461,394	750,387
- Current accounts	151,073	59
- Short-term	256,837	750,328
- Long-term	53,485	-
Foreign currency	1,838,259	1,508,149
- Current accounts	590,718	(137)
- Short-term	774,600	1,281,045
- Long-term	472,941	227,241
Total customer accounts	2,299,653	2,258,537

14 Deposits and other liabilities to customers (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Serbian Dinars</i>	2018		2017	
	Amount	%	Amount	%
- Agriculture, forestry and fishing	347	0.02%	10,289	0.46%
- Mining, manufacturing, water supply	30,966	1.35%	23,808	1.05%
- Electricity supply	694	0.03%	7	0.00%
- Construction	401,350	17.45%	402,183	17.81%
- Wholesale and retail trade	288,518	12.55%	323,004	14.30%
- Transportation and storage	526,800	22.91%	575,082	25.46%
- Real estate	476,959	20.74%	453,434	20.08%
- Retail	302,435	13.15%	314,774	13.94%
- Foreign legal entities (except banks)	237,608	10.33%	-	0.00%
- Other	33,976	1.48%	155,957	6.91%
Total customer accounts	2,299,653	100.00%	2,258,538	100.00%

15 Provisions for Liabilities and Charges

Provision for liabilities and charges comprise the following

<i>In thousands of Serbian Dinars</i>	2018	2017
Provisions for retirement benefits	2,537	2,378
Provisions for accrued employees' annual leave	5,372	806
Provisions for losses on off-balance sheet assets	1,282	2,787
Total provisions for liabilities and charges	9,191	5,971

The Bank made no provisions for potential losses from legal litigations as the Management estimated, after taking appropriate legal advice, that no losses will be incurred from current legal cases against the Bank.

Movements in provisions for liabilities and charges are as follows:

<i>In thousands of Serbian Dinars</i>	Provisions for losses on off-balance sheet exposures	Provisions for retirement benefits	Provisions for employees' annual leave	Total Provisions for Liabilities and Charges
1 January 2017	1,391	2,620	830	4,841
Increase during the period	1,396			1,396
Decrease during the period		(242)	(24)	(266)
31 December 2017	2,787	2,378	806	5,971
Effects of first application of IFRS 9	(8)	-	-	(8)
1 January 2018	2,779	2,378	806	5,963
New production	21	-	-	21
Derecognition	(1,048)	-	-	(1,048)
Increase/(decrease) due to change in risk	(470)	-	-	(470)
Other movements	-	159	4,566	4,725
31 December 2018	1,282	2,537	5,372	9,191

16 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Serbian Dinars</i>	2018	2017
Suppliers	3,252	4,553
Advances received	4,706	1
Liabilities for taxes and contributions	110	1,493
Accrued operating expenses	10,037	31,424
Accrued CAPEX	7,619	-
Deferred fee income	2,344	2,736
Other liabilities	292	9,703
Total	28,362	49,910

17 Subordinated Debt

Subordinated debt of RSD 1,182,194 thousand (2017: RSD 1,184,958 thousand) carries a variable interest rate of 6-months euribor +0.5% p.a. and matures on 30 October 2025. and 2 November 2025. The debt ranks after all other creditors in the case of liquidation.

Name of creditor	Contracted amount	Curr.	31.12.2018. in EUR	Interest rate is annual	Maturity	Balance at 31.12.2018 in thous. of dinars
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0,5%	30.10.2025.	590,973
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0,5%	02.11.2025.	590,973
Accrued interest						248
Total						1,182,194

Name of creditor	Contracted amount	Curr.	31.12.2017. in EUR	Interest rate is annual	Maturity	Balance at 31.12.2017 in thous. of dinars
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor + 0,5%	30.10.2025.	592,364
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor + 0,5%	02.11.2025.	592,364
Deferred interest for accrued interest						230
Total						1,184,958

Movements in the carrying amount relate solely to FX differences and changes in accruals. There were no changes in principal.

<i>In thousands of Serbian Dinars</i>	
1 January 2017	1,235,022
Change in accruals	(67)
FX differences	(49,997)
31 December 2017	1,184,958
Change in accruals	18
FX differences	(2,781)
31 December 2018	1,182,194

18 Share Capital

<i>In thousands of Serbian Dinars except for number of shares</i>	Number of outstanding shares [in thousands]	Ordinary shares	Total
At 1 January 2017	3,631	3,631,200	3,631,200
New shares issued	-	-	-
At 31 December 2017	3,631	3,631,200	3,631,200
New shares issued	-	-	-
At 31 December 2018	3,631	3,631,200	3,631,200

The total authorised number of ordinary shares is 3,631 thousand (2017: 3,631 thousand shares), with a par value of RSD 1,000 per share (2017: RSD 1,000 per share). All issued ordinary shares are fully paid.

At 31 December 2018, there were no treasury shares of the Bank in the balance sheet (2017: none). Interest

19 Interest Income and Expense

<i>In thousands of Serbian Dinars</i>	2018	2017
Interest income calculated using EIR method		
Interest income from RSD assets		
Loans to customers	88,181	97,979
Loans to banks and other financial institutions	6,424	10,718
Securities at FVOCI (AFS for comparatives)	94,607	64,920
Total interest income from RSD assets	189,212	173,617
Interest income from foreign currency assets		
Loans	13,957	14,873
Deposits in banks	258	2,469
Securities at FVOCI (AFS for comparatives)	-	62
Total interest income from foreign currency assets	14,215	17,405
Total interest income calculated using EIR method	203,427	191,021
Interest expense		
Interest expense from RSD liabilities		
Deposits from customers	19,836	16,255
Total interest expense from RSD assets	19,836	16,255
Interest expense from foreign currency liabilities		
Subordinated debt	2,757	3,164
Deposits from customers	22,105	54,982
Total interest expense from foreign currency assets	24,862	58,146
Total interest expense	44,697	74,402
Net interest income	158,730	116,619

20 Fee and Commission Income and Expense

<i>In thousands of Serbian Dinars</i>	2018	2017
Fee and commission income		
- Domestic payment transactions	7,620	8,574
- International payment transactions	1,502	1,170
- Other	1,712	1,784
Total fee and commission income from contracts with customers	10,833	11,528
- Financial guarantees issued	16,427	11,638
Total fee and commission income from activities out of the scope of IFRS 15	16,427	11,638
Total fee and commission income	27,260	23,166
Fee and commission expense		
- Domestic payment transactions	1,438	1,692
- International payment transactions	2,418	2,065
- Other	867	299
Total fee and commission expense	4,723	4,056
Net fee and commission income	22,537	19,110

21 Other Operating Income

<i>In thousands of Serbian Dinars</i>	2018	2017
Income from services	12,399	3,703
Other	-	517
Total other operating income	12,399	4,220

Income from services refers to advisory services, mainly success fee earned from contracts with customers.

22 Net expenses on impairment of financial assets not measured at FVTPL

<i>In thousands of Serbian Dinars</i>	2018
Modification losses	6,212
Net ECL expenses on financial assets at AC	16,820
Net (income) from reversals of ECL on off-balance sheet items	(1,497)
Net (income) from reversals of ECL on financial assets at FVOCI	(805)
Net expense on written-off financial assets	206
Net expenses on impairment of financial assets not measured at FVTPL	20,937

22 Net expenses on impairment of financial assets not measured at FVTPL (Continued)

<i>In thousands of Serbian Dinars</i>	2017
Net expense on impairment of loans and advances	1,413
Net expense on impairment of off-balance sheet items	1,473
Net expense on impairment losses	2,886

23 Salaries, salary compensations and other personal expenses

<i>In thousands of Serbian Dinars</i>	2018	2017
Cost of net salaries	196,628	209,432
Contributions on salaries	22,254	25,068
The cost of compensation for members of the BoD	4,263	6,914
(Income) / expenses from (cancellation) / creation provisions for annual leave and pension (IAS 19)	4,725	(266)
Other personal expenses	3,901	2,503
Total salaries, salary compensations and other personal expenses	231,771	243,651

24 Depreciation and amortisation expenses

<i>In thousands of Serbian Dinars</i>	2018	2017
Depreciation of PPE	42,831	43,299
Amortization of intangible assets	46,665	43,041
Total depreciation expenses	89,497	86,341

25 Other expenses

<i>In thousands of Serbian Dinars</i>	2018.	2017.
Facility expenses	44,103	63,437
Information systems expenses	67,160	94,057
Professional services	20,599	32,569
Marketing	10,101	49,186
Deposit insurance agency	7,304	3,197
Insurance expenses	6,810	7,328
Business trips	8,124	7,959
Memberships	1,653	2,050
Administrative taxes	1,616	3,343
Other	15,409	43,535
Total other expenses	182,879	306,659

26 Income taxes

(a) Components of income tax expense / (benefit)

Income tax credit recorded in profit or loss for the year comprises the following:

<i>In thousands of Serbian Dinars</i>	2018	2017
Deferred tax credit	(4,313)	(1,319)
Income tax credit for the year	(4,313)	(1,319)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Bank's 2018 income is 15% (2017: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Serbian Dinars</i>	2018	2017
Loss before tax	(326,783)	(486,692)
Theoretical tax credit at the rate of 15%	(49,017)	(73,004)
Tax effect of items which are not deductible for taxation purposes	(4,989)	(6,094)
Unrecognised DTA from tax loss	58,320	80,417
Other	(1)	(1)
Income tax credit	4,313	1,318
Effective tax rate	-1.32%	-0.27%

(c) Tax loss carry forwards

The Bank has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards as presented below. The tax loss carry forwards expire as follows:

In thousands of Serbian Dinars

Year of the loss	Amount of the loss	Utilized previously unrecognized loss	Remaining unrecognized tax loss carry forward	Year of expiry of tax loss carry forward
2015	317,942	-	317,942	2020
2016	485,393	-	485,393	2021
2017	536,116	-	536,116	2022
2018	388,802	-	388,802	2023
Total	1,728,253	-	1,728,253	

26 Income taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Serbia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

<i>In thousands of Serbian dinars</i>	1 January 2018	Credited to profit or loss	31 December 2018
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(13,391)	3,933	(9,458)
Provision for retirement benefits	-	381	381
Net deferred tax (liability)	(13,391)	4,314	(9,077)

As at 31 December 2017, there were recorded deferred tax liabilities related to temporary differences on premises and equipment **in the amount of RSD 13,391 thousand (31 December 2016 amounted of RSD 14,710 thousand)**, with deferred tax credited to profit or loss of RSD 1,318 thousand.

27 Reconciliation of Liabilities Arising from Financing Activities

The Bank did not have any cash flows from liabilities arising from financing activities in 2018 and 2017. The only movement in the subordinated debt was solely from foreign currency translation and changes of accruals, as disclosed in note 18.

28 Financial Risk Management

The risk management function within the Bank is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the balance sheet. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring and the associated loss ratios.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by borrower and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Bank established credit committee that is responsible for approving credit limits for individual borrowers. Credit committee reviews and approves limits below EUR 1,000 thousand, as regulated by the respective Board of Director decision. Credit committee meets when required.

The Bank's Board of Directors reviews and approves limits above EUR 1,000 thousand, based on recommendation of the Bank's credit committee and its prior approval.

Loan applications originating with the relevant client relationship managers are passed on to the credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the relevant functions in the Bank based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Bank's Executive Committee.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies two approaches – an internal rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

28 Financial Risk Management (Continued)

Master scale credit risk grade	Corresponding internal ratings	Corresponding PD interval for loans to customers and financial institutions with no external rating	Corresponding PD interval for loans to financial institutions with external rating	Corresponding PD interval for exposure to sovereign institutions
Excellent	A1, A2, B1	0,09 – 0,42%	0,09 – 0,42%	0,00%
Good	B2, V1	0,87% - 2,19%	0,87% - 2,81%	0,55%
Satisfactory	V2	7,82%	4,68%-11,62%	2,76%
Special monitoring	G	31,46%	17,38%-50,99	12,6%
Default	D	100%	100%	100%

Moody's ratings ranging from Aaa to A3 are not mapped to internal ratings as it is considered that in the Republic of Serbia there are no financial assets of comparative quality to the respective ratings.

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The internal rating system is designed internally and ratings are estimated by management. Bank has used expert judgment-based model as credit risk estimation technique. In such model, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.

The Bank applies internal rating model for measuring credit risk for the following financial assets: loans to companies, exposures to sovereign and exposures to banks and other financial institutions.

The rating model is regularly reviewed by Risk Department, backtested on actual default data and updated, if necessary.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: interbank placements, loans to sovereigns and investments in debt securities (government).

Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

28 Financial Risk Management (Continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. The Bank's management estimates that 12-month and lifetime CCFs are materially the same. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models *Lifetime ECL*, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL*, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates are not yet modelled in the manner to specifically consider *forward looking information*. The reason lies in the fact that due to the Bank's size, length of operation and quality of loan portfolio (low number of defaults) it has not been possible to conclude on the impact of key macroeconomic variables on credit risk. In the future, the Bank has foreseen taking into account the following macroeconomic variables as minimum: GDP growth rate, unemployment rate, consumer price index and reference interest rates for analysing and modelling impact of these on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- Upon assessing the financial position, i.e. the creditworthiness of the borrower, the Bank determines that the borrower is unable to settle its liabilities in full without the activation of collateral, regardless of whether or not the borrower meets its liabilities in a timely manner;
- Default on liabilities has occurred, in accordance with the NBS decision governing the capital adequacy of banks;
- Bankruptcy proceedings have been initiated against the client;
- The Bank has initiated judicial proceeding against the client;
- The borrower (entrepreneur) has terminated his/her registered activity with the Serbian Business Registers Agency, regardless whether it defaults on its contractual payments to the Bank.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on the expert judgment and industry best practice.

28 Financial Risk Management (Continued)

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For loans to companies, SICR is assessed on an individual basis by monitoring the triggers stated below. For other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank decided not to use the low credit risk assessment exemption for investment grade financial assets. Hence, even assets of an investment grade are assessed whether there has been a SICR.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

- 30 days past due;
- award of risk grade "Special monitoring" and inclusion of loan into a watch list according to the internal credit risk monitoring process;
- restructuring of the performing loan due to increased credit risk;
- decrease of rating from categories A, B or V1 to category V2, according to the Bank's procedure on Classification of balance sheet assets and off-balance sheet items.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed, all in accordance with Bank's procedure on Management of loans with increased credit risk and bad loans management.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings. The Bank performs an assessment on an individual basis for the following types of exposure: credit-impaired financial assets which are above RSD 3,000,000 for legal entities and RSD 1,000,000 for private individuals, agriculture producers and entrepreneurs. The Bank performs an assessment on a portfolio basis for all the financial assets that are not credit-impaired and if credit-impaired then below the threshold specified previously.

The Bank performs assessments based on external ratings for interbank loans, debt securities issued by the banks and loans issued to sovereigns, if external ratings are available.

28 Financial Risk Management (Continued)

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Analysis Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristic is credit risk rating. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank calculates lifetime PDs using the extrapolation of 12-month PDs based on migration matrixes.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit lines of corporate customers and for financial guarantees is defined based on expert judgment and regulatory guidelines. CCF for overdrafts is defined as 0% since the Bank may withdraw limits to the customers at any time.

28 Financial Risk Management (Continued)

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government and institutions exposures, if available.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs should incorporate supportable forward-looking information. The Bank did not incorporate forward-looking information in the ECL models. As the Bank has relatively short operating history, Bank's loan portfolio contains a relatively small number of clients/parties and number of clients in status default until end 2018 has been insignificant, the Bank analysis of impact of economic variables on the credit risk variables (PD, LGD and EAD) has not yielded the meaningful conclusion – i.e. the relationship/regression was not established between the variables.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rates, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

With the aim to protect against the currency risk, the Bank monitors the foreign exchange rates' trends in the financial market on the daily basis and implements the policy of low exposure to the currency risk. Treasury department monitors the trends in the foreign exchange market on the daily basis and manages the foreign exchange position of the Bank in its entirety and per individual significant currencies.

Asset and Liability Committee proposes measures to the Executive Committee of the Bank for adjustments of FX assets and liabilities to provide for favourable foreign exchange position on each currency segment. An independent risk management department performs independent analysis of the foreign exchange management process through monitoring of the compliance with the established system of limits.

Currency risk management is supplemented with the monitoring of:

- Impact of increase/decrease of FX items of assets/liabilities to the open position and foreign exchange risk indicator, and
- Sensitivity of income statement of the Bank to different scenarios of variations in foreign exchange rates. Sensitivity of income statement is the effect of assumptions regarding the changes in foreign exchange rates to net income from fluctuations in foreign exchange rates.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Serbian Dinars	At 31 December 2018				At 31 December 2017			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
EUR	3,061,556	3,018,729	-	42,827	3,279,410	2,686,967	(592,364)	79
USD	1,850	2,756	-	(906)	11,793	17,742	-	(5,949)
Total	3,063,406	3,021,485	-	41,921	3,291,203	2,704,709	(592,364)	(5,870)

28 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

<i>FX risk (reasonable) stress test</i>	At 31 December 2018		At 31 December 2017	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
<i>In thousands of Serbian Dinars</i>				
The effect of EUR strengtening by 2% on net income	857		2	
The effect of EUR weakening by 2% on net income	(838)		587	

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The key tool used to measure and manage interest rate risk is the interest rate risk report with a standard analysis of the interest rate gap, the movement of indicators of economic value impact and the movement of indicators of net interest income impact.

The interest rate risk report is prepared at quarterly level, with a reporting date on the last day of the month. The Risk Management Department is responsible for presenting reports, analyzes and recommendations (if necessary) to the ALCO Committee for taking certain measures in order to reduce the interest rate risk. The Risk Management Department is responsible to propose the adoption of key risk indicators and their limits for managing the interest rate risk to the ALCO and the Executive Committee of the Bank.

The Bank's compliance with the limit values ensures adequate management of interest rate risk, maintaining the Bank in the risk appetite zone, as well as compliance with regulatory limits. The Bank Limit system consists of two levels, the first and second levels of the internal limit values. In a situation where the Risk Management Department determines that the first or second level of the internal limit has been exceeded, it is obliged to carry out an analysis of the causes that led to the overrun. In the shortest possible time, members of the ALCO are informed of the situation. At the quarterly level, the Board of Directors receives information on the Bank's exposure to interest rate risk, which includes information on the compliance of the Bank with the internal limits of the first and second levels.

Bank mitigates or reduces the exposure to interest rate risk either by natural protection or by taking the positions to secure protection. The Corporate Banking Department and Treasury Department are responsible for the implementation of mentioned activities respectively, in accordance with the conclusions of the ALCO Committee.

28 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

<i>In thousands of Serbian Dinars</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non-monetary	Total
31-Dec-18							
Total financial assets	2,166,427	731,268	1,639,483	756,097	-	369,390	5,662,666
Total financial liabilities	991,509	553,812	1,944,347	245,510	-	23,075	3,758,252
Net interest sensitivity gap at 31 December 2018	1,174,918	177,456	(304,864)	510,587	-	346,316	1,904,414
31-Dec-17							
Total financial assets	2,086,809	183,774	1,868,681	1,236,630	-	306,530	5,682,424
Total financial liabilities	1,003,389	462,105	1,790,674	119,348	45,386	63,843	3,484,745
Net interest sensitivity gap at 31 December 2017	1,083,420	(278,331)	78,007	1,117,282	(45,386)	242,687	2,197,679

All of the Bank's debt instruments reprice within 5 years.

At 31 December 2018, if interest rates at that date had been 100 basis points lower (2017: 100 basis points lower) with all other variables held constant, loss for the year would have been RSD 3,833 thousand (2017: RSD 9,170 thousand) higher, mainly as a result of lower interest income on variable interest assets

Other price risk. The Bank does not have exposure to equity price risk.

The Bank is exposed to prepayment risk through providing fixed and variable rate loans, which give the borrower the right to repay the loans early. The Bank's current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2017: no material impact).

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018 is set out below:

28 Financial Risk Management (Continued)

<i>In thousands of Serbian Dinars</i>	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	548,470	-	-	548,470
Derivative financial assets	-	-	-	-
Securities	1,988,454	-	-	1,988,454
Loans and receivables from banks and other financial organisations	563,240	437,146	1	1,000,387
Loans and receivables from clients	2,125,356	-	-	2,125,356
Other financial assets	10,210	17	402	10,629
Total financial assets	5,235,729	437,163	404	5,673,295
Financial liabilities				
Deposits and other liabilities to banks, other financial organisations and central bank	276,405	-	-	276,405
Deposits and other financial liabilities to clients	1,932,910	237,619	129,124	2,299,653
- current and settlement accounts	422,328	237,619	81,846	741,793
- term deposits	1,510,582	-	47,278	1,557,860
Subordinated liabilities	-	-	1,182,194	1,182,194
Total financial liabilities	2,209,315	237,619	1,311,318	3,758,252
Net position in on-balance sheet financial instruments	3,026,414	199,543	(1,310,915)	1,915,043

Assets and liabilities have been based on the country in which the counterparty is located.

28 Financial Risk Management (Continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2017 is set out below:

<i>In thousands of Serbian Dinars</i>	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	382,825	-	-	382,825
Financial assets recognised at fair value through income statement and held for trading	5,800	-	-	5,800
Financial assets available for sale	1,387,095	-	-	1,387,095
Loans and receivables from banks and other financial organisations	889,627	806,414	10,021	1,706,061
Loans and receivables from clients	2,200,643	-	-	2,200,643
Total financial assets	4,865,990	806,414	10,021	5,682,424
Financial liabilities				
Deposits and other liabilities to banks, other financial organisations and central bank	41,250	-	-	41,250
Deposits and other financial liabilities to clients	2,028,683	22,828	207,025	2,258,537
- current and settlement accounts	404,436	22,828	159,636	586,901
- term deposits	1,624,247	-	47,389	1,671,636
Subordinated liabilities	-	-	1,184,958	1,184,958
Total financial liabilities	2,069,933	22,828	1,391,983	3,484,744
Net position in on-balance sheet financial instruments	2,796,057	783,585	(1,381,962)	2,197,680

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Serbia. These ratios are:

28 Financial Risk Management (Continued)

Liquidity ratio	2018	2017
As at 31 December	5.95	3.84
Average for the period (December)	3.89	3.21
Maximum for the period (December)	5.95	3.84
Minimum for the period (December)	3.36	2.95

Narrow liquidity ratio	2018	2017
As at 31 December	4.90	2.90
Average for the period (December)	3.21	2.25
Maximum for the period (December)	4.90	2.90
Minimum for the period (December)	2.85	1.99

Liquidity coverage ratio	2018	2017
As at 31 December	865%	898%
As at 30 September	623%	585%
As at 30 June	510%	293%
As at 31 March	517%	

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department and Risk Management Department.

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the balance sheet because the amount in the statement of financial position is based on discounted cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2018 is as follows:

<i>In thousands of Serbian Dinars</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and assets held with the central bank	548,470	-	-	-	-	548,470
Securities	-	509,528	767,550	711,376	-	1,988,454
Loans and receivables from banks and other financial organisations	885,393	-	115,119	-	-	1,000,386
Loans and receivables from clients	116,376	253,009	949,849	810,442	-	2,125,356
Total	1,550,239	762,537	1,832,518	1,521,818	-	5,662,666
Liabilities						
Deposits and other liabilities to banks, other financial organisations and central bank	19,405	-	157,000	100,000	-	276,405
Deposits and other financial liabilities to clients	999,119	559,630	625,207	145,629	-	2,329,584
- current and settlement accounts	706,190	-	-	-	-	706,190
- term deposits	292,929	559,630	625,207	145,629	-	1,623,394
Subordinated liabilities	-	-	2,924	14,636	1,184,874	1,202,434
Gross loan commitments	78,919	-	-	-	-	78,919
Payment guarantees	502,112	-	-	-	-	502,112
Other financial liabilities	32,021	7,275	31,114	126,906	-	197,316
Total potential future payments for financial obligations	1,631,575	566,905	816,245	387,171	1,184,874	4,586,769
Liquidity gap arising from financial instruments	(81,337)	195,632	1,016,273	1,134,648	(1,184,874)	1,080,342

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2017 is as follows:

<i>In thousands of Serbian Dinars</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total carrying amount
Assets						
Cash and assets held with the central bank	382,825	-	-	-	-	382,825
Financial assets recognised at fair value through income statement and held for trading	3,480	2,320	-	-	-	5,800
Financial assets available for sale	-	-	150,465	1,236,630	-	1,387,095
Loans and receivables from banks and other financial organisations	1,706,183	-	-	-	-	1,706,061
Loans and receivables from clients	149,598	189,386	849,478	1,022,809	-	2,200,643
Total	2,242,086	191,706	999,943	2,259,439	-	5,682,424
Liabilities						
Deposits and other liabilities to banks, other financial organisations and central bank	41,250	-	-	-	-	41,250
Deposits and other financial liabilities to clients	1,025,509	823,674	306,855	123,687	-	2,279,725
- current and settlement accounts	580,563	-	-	-	-	580,563
- term deposits	444,947	823,674	306,855	123,687	-	1,699,162
Subordinated liabilities	-	-	2,715	13,581	1,190,231	1,206,527
Gross loan commitments	180,017	-	-	-	-	180,017
Payment guarantees	325,655	-	-	-	-	325,655
Other financial liabilities	53,577	7,292	32,089	133,179	28,107	254,246
Total potential future payments for financial obligations	1,626,009	830,966	341,659	270,447	1,218,339	4,287,419
Liquidity gap arising from financial instruments	616,017	(639,260)	658,284	1,988,992	(1,218,339)	1,405,755

Payments in respect of gross settled forwards will be accompanied by related cash inflows. Customer accounts are classified in the above analysis based on contractual maturities.

28 Financial Risk Management (Continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

<i>In thousands of RSD</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2018						
Financial assets	1,573,123	736,027	1,856,985	1,510,489	-	5,676,624
Financial liabilities	1,067,254	534,672	828,047	725,038	1,195,348	4,350,359
Net liquidity gap based on expected maturities	505,870	201,354	1,028,937	785,451	(1,195,348)	1,326,264
At 31 December 2017						
Financial assets	2,337,254	298,300	828,538	2,266,380	-	5,730,472
Financial liabilities	911,978	191,820	1,284,130	410,909	1,197,843	3,996,680
Net liquidity gap based on expected maturities	1,425,276	106,480	(455,592)	1,855,471	(1,197,843)	1,733,792

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

29 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Serbia, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the National Bank of Serbia is monitored monthly, with reports outlining their calculation reviewed by the Executive Committee. Other objectives of capital management are evaluated quarterly.

Under the current capital requirements set by the National Bank of Serbia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The amount of capital that the Bank managed was RSD 3,631,200 thousand as of 31 December 2018 (2017: RSD 3,631,200 thousand), regulatory capital amounts to RSD 3,033,941 thousand (2017: RSD 3,394,550 thousand) and the Bank has complied with all externally imposed capital requirements throughout 2018 and 2017.

The composition of the Bank's capital calculated in accordance with the Basel Accord is as follows:

<i>In thousands of Serbian Dinars</i>	2018	2017
Tier 1 capital		
Share capital	3,631,200	3,631,200
(-) Loss	(1,516,307)	(1,189,845)
Revaluation reserves and other unrealised gains/losses	(180)	(185)
(-) Other intangible investment reduced by associated deferred tax liabilities	(192,532)	(211,679)
(-) Amount of required reserves for estimated losses on the balance sheet assets and off-balance sheet items of the bank that is deducted from the share capital of the bank	(70,186)	(19,669)
Total tier 1 capital	1,851,995	2,209,822
Tier 2 capital		
Revaluation reserves	-	-
Subordinated debt	1,181,946	1,184,728
Total tier 2 capital	1,181,946	1,184,728
Total capital	3,033,941	3,394,550

30 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax contingencies. The Management of the Bank is of the opinion that there is no risk of any tax implications on the financial position of the Bank and therefore has made no provisions related to this matter in these financial statements.

The Management has implemented internal controls to be in compliance with this transfer pricing legislation and has no reason to estimate any potential tax expenses related to this area.

Capital expenditure commitments. At 31 December 2018, the Bank has contractual capital expenditure commitments in respect of software and other intangible assets of RSD 7,619 thousand (2017: none).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

30 Contingencies and Commitments (Continued)

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Serbian Dinars</i>	2018	2017
Not later than 1 year	43,155	43,155
Later than 1 year and not later than 5 years	146,979	146,979
Later than 5 years	-	43,155
Total operating lease commitments	190,134	233,289

Compliance with covenants. The Bank is not subject to any covenants relating to its borrowings.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

<i>In thousands of Serbian Dinars</i>	2018	2017
Total irrevocable loan commitments	78,919	180,017
Financial guarantees issued	502,112	325,655
Less: Provision for financial guarantees	(1,255)	(2,622)
Less: Provision for loan commitments	(27)	(165)
Less: Commitment collateralised by cash deposits	(14,223)	-
Total credit related commitments, net of provision and cash covered exposures	565,526	502,885

30 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2018 is as follows.

<i>In thousands of Serbian Dinars</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	Total
Issued financial guarantees				
- Excellent	431,195	-	-	431,195
- Good	70,917	-	-	70,917
Unrecognised gross amount	502,112	-	-	502,112
Provision for financial guarantees	(530)	-	-	(530)
Loan commitments				
- Excellent	78,069	-	-	78,069
- Good	850	-	-	850
Unrecognised gross amount	78,919	-	-	78,919
Provision for loan commitments	(27)	-	-	(27)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

31 Offsetting Financial Assets and Financial Liabilities

The Bank did not set off financial assets and financial liabilities in the statement of financial position as at both 31 December 2018 and 31 December 2017.

32 Transfers of Financial Assets

The Bank did not perform transfers of financial assets in transactions that did or did not qualify for derecognition in the current nor prior periods.

33 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

In thousands of RSD	31-Dec-18					31-Dec-17				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets										
Cash and balances with the central bank	-	548,470	-	548,470	548,470	-	382,825	-	382,825	382,825
Loans and advances to banks and other financial institutions	-	-	1,000,386	1,000,386	1,000,386	-	-	1,706,061	1,706,061	1,706,061
Loans and advances to customers	-	-	2,058,591	2,058,591	2,125,356	-	-	2,128,898	2,128,898	2,200,643
Financial assets at fair value through profit or loss held for trading	-	-	-	-	-	-	5,800	-	5,800	5,800
Financial assets at FVOCI / available for sale	-	1,988,454	-	1,988,454	1,988,454	-	1,387,095	-	1,387,095	1,387,095
Liabilities										
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	276,405	276,405	276,405	-	-	41,250	41,250	41,250
Deposits and other liabilities to customers	-	725,611	1,555,326	2,280,937	2,299,653	-	-	2,181,306	2,181,306	2,258,537
Subordinated liabilities	-	-	1,157,613	1,157,613	1,182,194	-	-	1,152,818	1,152,818	1,184,958

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Note 3 for valuation method applied by the Bank in determining fair value of financial assets at FVOCI.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (d) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments: Recognition and Measurement", classified financial assets into the following categories: (a) L&R; (b) AFS financial assets; (c) financial assets HTM and (d) financial assets at FVTPL ("FVTPL"). Financial assets at FVTPL had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables formed a separate category. All of the Bank's financial assets at 31 December 2017 fell in the L&R category except for financial derivatives and debt securities classified as AFS. All of the Bank's financial liabilities except for derivatives were carried at AC. Derivatives belonged to the FVTPL measurement category and were held for trading.

35 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

<i>In thousands of Serbian Dinars</i>	Debt instruments at FVOCI	AC	Total
Assets			
Cash and assets held with the central bank	-	548,470	548,470
Derivative financial assets	-	-	-
Securities	1,988,454	-	1,988,454
Loans and receivables from banks and other financial organisations	-	1,000,386	1,000,386
Loans and receivables from clients	-	2,125,356	2,125,356
Other financial assets:	-	1,705	1,705
Total FINANCIAL assets	1,988,454	3,675,917	5,664,371

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2017:

<i>In thousands of Serbian Dinars</i>	L&R	AFS	Trading assets	Total
Assets				
Cash and assets held with the central bank	382,825	-	-	382,825
Financial assets recognised at fair value through income statement and held for trading	-	-	5,800	5,800
Financial assets available for sale	-	1,387,095	-	1,387,095
Loans and receivables from banks and other financial organisations	1,706,061	-	-	1,706,061
Loans and receivables from clients	2,200,643	-	-	2,200,643
Other financial assets:	2,636	-	-	2,636
Total FINANCIAL assets	4,292,165	1,387,095	5,800	5,685,060

As of 31 December 2018 and 31 December 2017, all of the Bank's financial liabilities except for derivatives were carried at AC.

35 Related Party Transactions

In thousands of RSD

Balance sheet as at 31 December	2018	2017
Subordinated debt	1,182,194	1,184,958

In thousands of RSD

Income statement for the year	2018	2017
Interest expense (subordinated debt)	2,757	3,164

In thousands of Serbian Dinars

	2018	2017
Gross salaries	72,727	66,123
Executive board	65,988	59,209
Board of directors	6,739	6,914
Net salaries	60,893	55,380
Executive board	56,634	51,010
Board of directors	4,259	4,370

36 Events after the End of the Reporting Period

There were no significant events after the end of the reporting period that could require adjustments to the financial statements of the Bank for 2018.

37 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
AFS	Available For Sale
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
HTM	Held To Maturity
IFRS	International Financial Reporting Standard
L&R	Loans and Receivables
LGD	Loss Given Default
LTV	Loan to Value
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest



Nikola Mihailović
President of the Executive Committee



Dragana Bojin
Chief Accountant


Saša Mičević, Member of the Executive Committee



INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT

To the shareholders of Mirabank a.d. Beograd

We have audited the financial statements of Mirabank a.d. Beograd ("the Bank") for the year ended 31 December 2018 attached to the annual report and issued the opinion dated 12 April 2019.

Report on annual report

We have verified that the other information included in the annual report of the Bank for the year ended 31 December 2018 is consistent with the financial statements referred to above. Management is responsible for the accuracy of the annual report of the Bank. Our responsibility is to express an opinion on the consistency of the annual report of the Bank with the financial statements based on our verification procedures.

Auditor's responsibility

We conducted our verification procedures in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. This regulation requires that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of Mirabank a.d. Beograd for the year ended 31 December 2018 is consistent, in all material respects, with the financial statements.

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 15 April 2019