

MIRABANK A.D. BEOGRAD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
AND INDEPENDENT AUDITOR'S REPORT**

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Mirabank a.d. Beograd

We have audited the accompanying financial statements of Mirabank a.d. Beograd (the "Bank") which comprise the balance sheet as of 31 December 2018 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility


Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. This regulation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mirabank a.d. Beograd as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Saša Todorović
Licenced Auditor


PricewaterhouseCoopers d.o.o. Belgrade

Belgrade, the Republic of Serbia
12 April 2019


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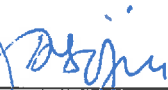
This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

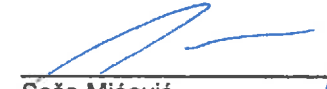
Mirabank a.d. Beograd
Balance sheet

<i>In thousands of Serbian Dinars</i>	Note	31-Dec 2018	31-Dec 2017
Assets			
Cash and balances with the central bank	7	548,470	382,825
Derivatives		-	5,800
Securities	9	1,988,454	1,387,095
Loans and receivables from banks and other financial institutions	8	1,000,386	1,706,061
Loans and receivables from customers	10	2,125,356	2,200,643
Intangible assets	13	192,531	211,679
Property, plant and equipment	12	72,067	114,390
Other assets	11	10,628	14,234
Total assets		5,937,892	6,022,727
Liabilities			
Deposits and other liabilities to banks, other financial institutions and central bank	14	276,405	41,250
Deposits and other financial liabilities to customers	15	2,299,653	2,258,537
Subordinated liabilities	18	1,182,194	1,184,958
Provisions	16	9,191	5,971
Deferred tax liabilities		9,077	13,391
Other liabilities	17	28,362	49,910
Total liabilities		3,804,882	3,554,017
EQUITY			
Share capital	19	3,631,200	3,631,200
Accumulated Losses		(1,516,307)	(1,189,845)
Reserves		18,117	27,355
Total equity		2,133,010	2,468,710
Total liabilities and equity		5,937,892	6,022,727

Approved for issue and signed on behalf of the Executive Committee on 11 April 2019.


 Nikola Mihailović
 President of Executive Board


 Dragana Bojin
 Chief Accountant


 Saša Mićević
 Member of Executive Board

Mirabank a.d. Beograd
Income statement

<i>In thousands of Serbian Dinars</i>	Note	2018	2017
Interest income calculated using the effective interest method	20	203,427	191,021
Interest expenses	20	(44,697)	(74,402)
Net interest income		158,730	116,619
Fee and commission income	21	27,260	23,166
Fee and commission expense	21	(4,723)	(4,056)
Net income from fee and commission		22,537	19,110
Net losses on change in fair value of financial instruments		(2,478)	(118,897)
Net foreign exchange gains less losses		6,474	131,793
Net loss on impairment of financial assets not measured at fair value through profit and loss	23	(20,937)	(2,886)
Other operating income	22	12,399	4,220
Total net operating income		176,725	149,959
Salaries, salary compensations and other personal expenses	24	(231,771)	(243,651)
Depreciation costs	25	(89,497)	(86,341)
Other income		639	-
Other expenses	26	(182,879)	(306,659)
Loss before tax		(326,783)	(486,692)
Income tax	27	4,314	1,319
LOSS FOR THE YEAR		(322,469)	(485,373)

Mirabank a.d. Beograd
Statement of other comprehensive income

<i>In thousands of Serbian Dinars</i>	2018	2017
Loss for the year	(322,469)	(485,373)
Other comprehensive income / (loss):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Available-for-sale investments:		
- Gains less losses arising during the year	-	21,346
Debt securities at fair value through other comprehensive income:		
- Gains less losses arising during the year	(12,640)	-
Other comprehensive income / (loss) for the year	(12,640)	21,346
Total comprehensive loss for the year	(335,109)	(464,027)

Mirabank a.d. Beograd
Statement of changes in equity

<i>In thousands of Serbian Dinars</i>	Note	Share capital	Revaluation reserve for AFS securities / securities at FVOCI	Accumulated losses	Total
Balance at 1 January 2017		3,631,200	6,009	(704,472)	2,932,737
Profit / (loss) for the year		-	-	(485,373)	(485,373)
Other comprehensive income		-	21,346	-	21,346
Balance at 31 December 2017		3,631,200	27,355	(1,189,845)	2,468,710
Adoption of IFRS 9: – remeasurement for expected credit losses, net of tax		-	3,401	(3,992)	(591)
Restated balance at 1 January 2018		3,631,200	30,756	(1,193,837)	2,468,119
Profit / (loss) for the year		-	-	(322,469)	(322,469)
Other comprehensive income		-	(12,640)	-	(12,640)
Balance at 31 December 2018		3,631,200	18,117	(1,516,306)	2,133,011

Mirabank a.d. Beograd
Statement of Cash Flows

<i>In thousands of Serbian Dinars</i>	2018	2017
Cash flows from operating activities	152,719	161,746
Interest receipts	110,625	119,296
Fee and commission receipts	26,934	24,086
Receipts of other operating income	15,160	18,364
Cash used in operating activities	(508,748)	(673,776)
Interest payments	(44,649)	(96,084)
Fee and commission payments	(4,728)	(6,308)
Payments to and on behalf of employees	(233,914)	(248,998)
Taxes, contributions and other duties paid	(6,183)	(10,488)
Payments for other operating expenses	(219,274)	(311,898)
Net cash outflows from operating activities prior to increases or decreases in loans and deposits	(356,029)	(512,030)
Decrease in loans and receivables from banks, other financial organizations, central bank and customers	285,392	754,477
Increase / (Decrease) in deposits and other liabilities to banks, other financial institutions, central bank and customers	276,038	(648,705)
Decrease / (Increase) in receivables based on other financial assets that are not used for investing	4,472	(92,442)
Net cash inflows / (outflows) from operating activities	209,873	(498,700)
Acquisition of debt securities at fair value through other comprehensive income (AFS for comparatives)	(752,668)	(1,332,940)
Proceeds from disposal and redemption of debt securities at fair value through other comprehensive income (AFS for comparatives)	234,031	2,078,788
Acquisition of premises and equipment and intangible assets	(20,432)	(27,370)
Disposal of premises and equipment and intangible assets	29	-
Net cash from/(used in) investing activities	(539,040)	718,478
Net increase/(decrease) in cash and cash equivalents	(329,167)	219,778
Cash and cash equivalents at the beginning of the year	1,072,736	875,933
Effect of exchange rate changes on cash and cash equivalents	111	(22,975)
Cash and cash equivalents at the end of the year	743,680	1,072,736

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 2018 for Mirabank a.d. Beograd (the "Bank").

The Bank was incorporated and is domiciled in the Republic of Serbia. The Bank is a joint stock company limited by shares and was set up in accordance with the Serbian regulations. The founder of 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. As at 31 December 2018 and 2017 the Bank's ultimate parent company was Royal Group Holding L.L.C., the United Arab Emirates.

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, 2016, 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 39191/2017 of May 16, 2016, the Business Registers Agency completed registration of changes/increase in share capital.

Members of the Executive Board of the Bank as at 31 December 2018 are:

Nikola Mihailović, President,
Mirjana Garapic Zakanyi, Member,
Saša Mićević, Member.

Members of the Board of Directors of the Bank as at 31 December 2018 are:

Fadhel Al Ali, Chairman
Majed Fuad Mohammad Odeh
Mahmood Ebraheem Mahmood Mohamed Al Mahmood
Kheriba Mustafa Ghazim
Dejan Nikolic
Vladimir Radic

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

Principal activity. The Bank's principal business activity is commercial banking operations within the Republic of Serbia. The Bank has operated under a full banking licence issued by the National Bank of Serbia ("NBS") since December 16, 2014.

The Bank participates in the state deposit insurance scheme. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to EUR 50 thousand per individual in the case of the withdrawal of a licence of a bank or a NBS imposed moratorium on payments.

1 Introduction (continued)

Registered address and place of business. 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).

Presentation currency. These financial statements are presented in thousand of Serbian Dinars ("RSD"), unless otherwise stated. Dinar is the official reporting currency in the Republic of Serbia.

Abbreviations. A glossary of various abbreviations used in this document is included in Note 38.

2 Basis of preparation and presentation of the financial statements and accounting convention

Basis of preparation. Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred to as: the "Law", Official Gazette of the Republic of Serbia no. 62/2013 and 30/2018). As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by the International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance. In addition, in accordance with the Amendments and Supplements to the Law on Banks (Official Gazette of the Republic of Serbia no. 14/2015), in preparation of the annual financial statements, banks in the Republic of Serbia are obligated to apply the International Financial Reporting Standards, subsequent revisions and amendments thereto and related interpretations as from their issue date by the competent authorities.

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS nos. 101/2017, 38/2018 and 103/2018).

The Bank does not prepare and present consolidated financial statements in accordance with the International Financial Reporting Standards since the Bank does not hold equity interest in any subsidiaries.

These financial statements were prepared at historical cost principle, except for the measurement of the financial assets and liabilities at fair value through other comprehensive income in current year, i.e., financial assets and liabilities at fair value through profit or loss and financial assets available for sale in the previous year.

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

Going concern. Management prepared these financial statements on a going concern basis. The Bank is still a loss making entity, however well capitalised and with continuous support from the Group through subordinated debt. Refer to Note 30 for compliance with regulatory covenants and Note 18 for details about subordinated debt.

3 Significant Accounting Policies

Financial instruments – key measurement terms. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices.

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate in the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. 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 solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the balance sheet.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

3 Significant Accounting Policies (Continued)

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank’s business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank’s objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

3 Significant Accounting Policies (Continued)

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the balance sheet. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Bank identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 29 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank’s definition of credit impaired assets and definition of default is explained in Note 29. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

As an exception, for certain financial instruments that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. The Bank writes off exposures that are fully provided for when no recovery is expected. The write-off represents a derecognition event.

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: difference between the discounted value of renegotiated cash-flow versus discounted value of initially contracted cash flow, any new contractual terms that substantially affect the risk profile of the asset, such as change in the currency denomination and repayment method.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

3 Significant Accounting Policies (Continued)

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified and subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the Carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss.

The Bank did not have any such modifications in the current or comparative period.

Cash and balances with the Central Bank. Cash and balances held with the central bank include cash on hand, balances held on the Bank's gyro account, other cash funds and the mandatory foreign currency reserve held with the central bank. Cash and balances held with the central bank are stated at amortized cost within the statement of financial position because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

For the purposes of cash flow statement preparation, cash and cash equivalents include also funds held on the accounts with foreign banks. Mandatory foreign currency reserve held with the central bank is carried at AC and represents non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Derivative financial instruments. Derivative financial instruments include forward transactions, currency swaps, interest rate swaps as well as interest options. In the balance sheet they are presented within assets if their fair value is positive or within the liabilities if their fair value is negative. They are initially recognized at fair value and the effects of the change in fair value on subsequent measurement are presented in the income statement, within the line item "Net gains/losses on the change in the fair value of financial instruments".

3 Significant Accounting Policies (Continued)

Loans and Receivables. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. From 1 January 2018, in accordance with IFRS 9, positions "Loans and receivables to banks and other financial institutions" and "Loans and receivables to customers" in the balance sheet include financial assets that are measured at: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC. If they are measured at amortized cost, loans and receivables are presented net of allowances for impairment in the balance sheet (Note 10). Impairment allowances are determined based on the ECL models. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Until 1 January 2018, in accordance with IAS 39, the Bank classified as loans and receivables non-derivative financial assets with fixed or determinable payments that were not quoted in the active market and which the Bank did not intend to sell immediately or in the near future. Loans and receivables included placements granted to banks and placements to customers. Loans and receivables were initially measured at fair value plus direct transaction costs, and subsequently at amortized cost using the effective interest rate method. Loans and receivables were presented net of specific and collective allowances for impairment. Specific and collective allowances are made against the carrying amount of loans and receivables that are identified as being impaired in order to reduce their value to recoverable amount..

Debt securities. From 1 January 2018, in accordance with IFRS 9, the "Securities" position in the balance sheet includes debt securities that can be classified into all three categories of financial assets depending on the business model and SPPI criteria. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Until 1 January 2018, in accordance with IAS 39, the Bank classified debt securities as held to maturity securities, securities at fair value through profit or loss and securities available for sale. Initially, these securities were recognized at fair value plus transaction costs, except in the case of securities at fair value through profit or loss.

Available-for-sale securities included securities that were intended to be held for an indefinite period of time and could have been sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. Securities available for sale were subsequently measured at fair value. Interest income on securities that were classified as available for sale was recognized in the income statement using the effective interest method. Foreign exchange gains and losses on securities available for sale were recognized in the income statement. Impairment losses were recognized in the income statement. Other fair value changes were recognized within the OCI until the moment of sale of the securities, when cumulative gains and losses previously recognized in OCI, were reclassified to the income statement

Property, Plant and Equipment.

Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and any provision for impairment, where required.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized within other income/expenses in profit or loss.

3 Significant Accounting Policies (Continued)

Property, Plant and Equipment (continued)

Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of expenditure will flow to the Bank.

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

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The depreciation rates used for the current and comparative periods are as follows:

- 1) Buildings: up to 50 years
- 2) Leasehold improvements: Shorter of useful life and the term of the underlying lease
- 3) Equipment:
 - a. Personal computers: 3-5 years
 - b. Information systems hardware: up to 10 years
 - c. Other equipment: up to 15 years

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

Intangible assets. Intangible assets comprise software, licenses and other intangible assets.

Intangible assets purchased by the Bank are stated at cost less accumulated amortization and any provision for impairment, where required.

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of an intangible asset, from the date that it is available for use. The estimated useful life of intangible assets is up to seven years, except for the assets whose usage periods are contractually defined, when these assets are amortized over the contractually defined periods.

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

Operating leases. Leasing is classified as finance lease in case when substantially all benefits and risks arising from the ownership of the leased object are transferred to the Bank. Leasing is classified as operating lease in case when the benefits and risks arising from the ownership of the lease are not transferred to the Bank.

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

3 Significant Accounting Policies (Continued)

Impairment of Non-Financial Assets. The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

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

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

Due to banks and other financial institutions. Amounts due to banks and other financial institutions are recorded when money or other assets are advanced to the Bank by the counterparty. The non-derivative liability is carried at AC.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Employee Benefits. In accordance with regulatory requirements of the Republic of Serbia, the Bank is obligated to pay contributions to state social security fund, which guarantee social security insurance benefits to employees. These obligations involve the payment of contributions by the employer, in amounts computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government fund. These taxes and contributions payable on behalf of the employee and employer are charged to staff costs in the period in which they arise.

Pursuant to the Labour Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfilment of the prescribed conditions represent the present value of the expected future payments to employees determined by actuarial assessment using assumptions.

For determination of provisions for retirement benefits, the Bank uses data such as mortality rate tables, employee turnover and disability rates, projected annual salary growth rate of 3%, annual discount rate of 5%.

Provisions. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Bank does not perform discounting of the future cash flows expected to arise in the near term.

Financial Guarantees. Financial guarantee represents contract whereby the Bank is obligated to make the designated payment to the guarantee holder for the loss incurred due to the designated debtor's failure to make the relevant payment in timely manner in accordance with the debt instrument terms.

Financial guarantee liabilities are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized over the life of the financial guarantee. The guarantee liability is subsequently measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition.

3 Significant Accounting Policies (Continued)

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, portfolio and other asset management advisory and service fees, wealth management and financial planning services, or fees for servicing loans on behalf of third parties, etc.

3 Significant Accounting Policies (Continued)

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

Sales and purchases of foreign currencies and currency conversion. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as foreign exchange gains less losses at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Bank's presentation currency, is the national currency of the Republic of Serbia, Serbian Dinar ("RSD").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the NBS at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBS, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authority in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 29. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Credit exposure on revolving credit facilities. For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (eg the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition.

Should 10% of all loans and advances to customers classified in Stage 1 as of 31 December 2018 be measured at lifetime ECL (Stage 2), the expected credit loss allowance would be higher by RSD 8,432 thousand as of 31 December 2018 (1 January 2018: higher by RSD 6,449 thousand).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

On transition to IFRS 9, the Bank reclassified its portfolio of AFS securities into held to collect and sell.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank's loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply, are not relevant for assessing whether cash flows are SPPI.

The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based on quantitative and qualitative factors, described in the relevant accounting policy and the qualitative factors require significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: liquidation or bankruptcy proceedings, collateral enforcement activities were completed.

Deferred income tax asset recognition. The deferred tax asset represents income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The Bank did not recognize any deferred tax asset.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 “Financial Instruments”. The Bank adopted IFRS 9, *Financial Instruments*, from 1 January 2018. The Bank elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, *Financial Instruments: Disclosures*, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period, together with accounting policies applied prior to 1 January 2018 and applicable to the comparative information are described in Note **Error!**
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5 Adoption of New or Revised Standards and Interpretations (continued)

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

In thousands of Serbian Dinars	Measurement category		Carrying value under IAS 39 31-Dec-17	Effect of adopting IFRS 9				Carrying value under IFRS 9 01-Jan-18
	IAS 39	IFRS 9		Reclassification		Remeasurement		
				Mandatory	Voluntary	ECL	Other	
FINANCIAL ASSETS								
Cash and balances with the central bank	L&R	AC	382,825	-	-	-	-	382,825
Derivative financial assets		FVTPL	-	5,800	-	-	-	5,800
Financial assets at fair value through profit and loss held for trading	Held for trading	Mandatory at FVTPL	5,800	(5,800)	-	-	-	-
Securities	AFS	FVOCI	-	1,387,095	-	-	-	1,387,095
Financial assets available for sale	AFS	FVOCI	1,387,095	(1,387,095)	-	-	-	-
Loans and receivables from banks and other financial institutions	L&R	AC	1,706,061	-	-	(468)	-	1,705,593
Loans and receivables from customers	L&R	AC	2,200,643	-	-	(56)	-	2,200,587
Other assets	L&R	AC	14,234	-	-	(75)	-	14,159
TOTAL FINANCIAL ASSETS			5,696,658	-	-	(599)	-	5,696,059
FINANCIAL LIABILITIES AND PROVISIONS								
Deposits and other liabilities to banks, other financial institutions and central bank	AC	AC	41,250	-	-	-	-	41,250
Deposits and other financial liabilities to customers	AC	AC	2,258,537	-	-	-	-	2,258,537
Subordinated liabilities	AC	AC	1,184,958	-	-	-	-	1,184,958
Provisions	AC	AC	5,971	-	-	(8)	-	5,963
Other liabilities	AC	AC	49,910	-	-	-	-	49,910
TOTAL FINANCIAL LIABILITIES AND PROVISIONS			3,540,626	-	-	(8)	-	3,540,618
CAPITAL								
Share capital	AC	AC	3,631,200	-	-	-	-	3,631,200
Loss	AC	AC	(1,189,845)	-	-	(3,992)	-	(1,193,837)
Reserves	AC	AC	27,355	-	-	3,401	-	30,757
TOTAL CAPITAL			2,468,710	-	-	(591)	-	2,468,119

(a) Cash and assets held with the central bank

All classes of Cash and balances with the central bank as disclosed in Note 0 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

(b) Loans and receivables from banks and other financial organisations

All classes of Loans and receivables from banks and other financial institutions were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

5 Adoption of New or Revised Standards and Interpretations (continued)

(c) Securities

The main reason for reclassification was as follows:

- *Reclassification from retired categories with no change in measurement.* The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis:
 - those previously classified as AFS and now classified as measured at FVOCI

(d) Loans and receivables from customers

All classes of Loans and receivables from customers were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

<i>In thousand or Serbian Dinars</i>	Provision under IAS 39 or IAS 37 at 31 Dec 2017	Remeas- urement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Loans and receivables measurement category			
- Loans and receivables from banks and other financial institutions	122	468	591
- Loans and receivables from customers	10,628	56	10,684
- Other financial assets	639	75	714
Financial guarantees	2,787	(8)	2,779

At 31 December 2017, all of the Bank's financial liabilities, except for derivatives, were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities.

Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Bank.

The following amended standards became effective for the Bank from 1 January 2018, but did not have any material impact on the Bank:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

5 Adoption of New or Revised Standards and Interpretations (continued)

- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements

On the date of the approval of these financial statements, the following standards, amendments to existing standards and new interpretations were issued but are not yet effective:

- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019),
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021),
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019)
- Amendments to IFRS 3 "Business Combinations",
- Amendments to IAS 1 and IAS 8: "Definition of materiality",
- Amendments to IFRS Conceptual Framework.

The Bank's management has elected not to adopt these new standards, amendments to existing standards and new interpretations before they enter into force. The management anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for IFRS 16. The expected effects of the first application of IFRS 16 to the Bank's financial statements are explained in more detail below.

Effects of the first application of IFRS 16 „Leases”

IFRS 16, effective from January 1, 2019, replaces the existing set of international accounting principles and interpretations on leasing, in particular IAS 17.

IFRS 16 introduces a new definition for leases. Accounting treatment of leasing contracts for lessor remains different for operating and financial leases. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset. The asset is the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract is recognized. At the initial recognition such asset is measured on the basis of the lease contract cash flows. After the initial recognition the right of use will be measured on the basis of the rules set for the assets by IAS 16, IAS 38 or by IAS 40 and, therefore, applying the cost model, less any accumulated depreciation and any accumulated impairment losses, the revaluation model or the fair value model as applicable.

The Bank has carried out activities aimed to ensure compliance with this standard, in particular with reference to the calculation and accounting for the right of use and lease liability, that represent the main difference compared to the current accounting model required by IAS 17. The activities aimed to the development of rules, principles and information systems to be used for the proper evaluation of new assets and liabilities and the subsequent calculation of the related economic effects are under finalization. The Bank has decided, as allowed by the Standard, not to apply IFRS 16 provisions to leases of intangible assets, short-term leases (leases with a shorter duration than 12 months), and low-value assets leases.

6 New Accounting Pronouncements (continued)

In order to calculate the lease liability and the related right of use asset, the Bank proceeds with discounting the future lease payments at a proper discount rate. In this respect, future lease payments to discount are determined based on contractual provisions and net of VAT as the obligation to pay such a tax starts when the invoice is issued by the lessor and not at the starting date of the lease contract. To perform the mentioned calculation lease payments have to be discounted at the interest rate implicit in the contract or, if it is not available, at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

In determining the lease term it is necessary to consider the non-cancellable period, established in the contract, in which the lessee is entitled to use the underlying asset taking also into account potential renewal options if the lessee is reasonably certain to renew. In particular, with regard to those contracts that allows the lessee to renew the lease contract after a first set of years, the lease term is determined taking into account factors such as the length of the first period, the existence of dismissal plans for the asset leased and any other circumstance indicating the reasonable certainty of the renewal.

The Bank decided not to change the comparative data and, at the time of first application of IFRS 16, the value of the right of use would be equal to the lease liability. The Bank will recognize right-of-use in the amount of RSD 121,431 thousands, while it will also recognize euro liability as the net present value of future lease payments in the equivalent of RSD 121,431 thousands. Refer to Note 31 for operating lease commitments.

7 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 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.

7 Cash and balances with the central bank (Continued)

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
<hr/>	
<i>Neither past due nor impaired</i>	
- National Bank of Serbia	346,935
<hr/>	
Total cash and balances with the central bank, excluding cash in hand	346,935
<hr/>	

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.

8 Loans and receivables from banks and other financial institutions

<i>In thousands of Serbian Dinars</i>	2018	2017
<hr/>		
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
<hr/>		
Less credit loss allowance	(126)	(122)
<hr/>		
Total loans and receivables from banks and other financial organisations	1,000,387	1,706,062
<hr/>		

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

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.

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

8 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

8 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

9 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

9 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.

9 Securities (Continued)

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

<i>In thousands of Serbian Dinars</i>	Credit loss allowance				Gross carrying amount			Total
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	
	(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.

10 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>	Gross carrying amount	31-Dec-18 Credit loss allowance	Carrying amount	Gross carrying amount	31-Dec-17 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.

10 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 im- paired)		Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im- paired)	
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

10 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.

10 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%

10 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.

10 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.

10 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.

11 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

11 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

11 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
Other financial assets								
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>								
Transfers:								
- 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

11 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)

12 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

13 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

14 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

15 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

15 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%

16 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

17 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

18 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

19 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

20 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

21 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

22 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.

23 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

23 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

24 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

25 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

26 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

27 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	

27 Income taxes (Continued)

(f) 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.

28 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.

29 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:

29 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.

29 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.

29 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.

29 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.

29 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)

29 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.

29 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:

29 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.

29 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:

29 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.

29 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.

29 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.

29 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.

30 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

31 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.

31 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

31 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.

32 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.

33 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.

34 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.

35 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 (c) 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.

36 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

37 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.

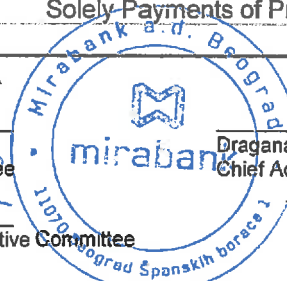
38 Abbreviations


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


Saša Mičević, Member of the Executive Committee




Dragana Bojin
Chief Accountant