ERSTE BANK A.D. NOVI SAD

STAND ALONE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 AND INDEPENDENT AUDITOR'S REPORT

CONTENTS

pwc

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Erste Bank a.d. Novi Sad

We have audited the accompanying stand alone financial statements of Erste Bank a.d. Novi Sad (the "Bank") which comprise the balance sheet as of 31 December 2017 and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the stand alone financial statements

Management is responsible for the preparation and fair presentation of these stand alone financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of stand alone 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 stand alone financial statements based on our audit. We conducted our audit in accordance with 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 stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the stand alone 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 stand alone 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 stand alone 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 accompanying stand alone financial statements present fairly, in all material respects, the financial position of Erste Bank a.d. Novi Sad as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Saša Todorović

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o. pwc *Beograd*

Belgrade, 13 March 2018

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.

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

(In RSD '000)

POSITION	Note	2017	2016
Interest income	4	7,498,937	7,049,967
Interest expenses	4	(1,280,969)	(1,227,200)
Net interest income		**6,217,968**	**5,822,767**
Fee and commission income	5	2,258,961	2,143,153
Fee and commission expenses	5	(771,004)	(685,132)
Net fee and commission income		**1,487,957**	**1,458,021**
Net gains on the financial assets held for trading	6	281,304	198,957
Net gains from hedging	7	2,067	1,238
Net foreign exchange gains and currency clause effects	8	225,060	203,037
Other operating income	9	237,493	258,681
Net income from impairment of financial assets and credit-risk-weighted off-balance sheet assets	10	26,473	-
Net losses from impairment of financial assets and credit-risk-weighted off-balance sheet assets	10	-	(630,331)
Total net operating income		**8,478,322**	**7,312,370**
Cost of salaries, contributions and other personnel expenses	11	(1,932,260)	(1,802,560)
Depreciation costs	12	(290,092)	(263,278)
Other expenses	13	(3,419,750)	(3,089,221)
PROFIT BEFORE TAX		**2,836,220**	**2,157,311**
Income tax	14	(160,965)	(2,205)
Deferred tax loss	14	(43,015)	(90,186)
PROFIT FOR THE YEAR	30	**2,632,240**	**2,064,920**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, February 28, 2018

Stevan Čomić Head of the Accounting and Controlling Division	Aleksandra Radić Executive Board Member	Slavko Carić Executive Board Chairman

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED December 31, 2017

(In RSD '000)

Position	Note	2017	2016
PROFIT FOR THE YEAR	30	**2,632,240**	**2,064,920**
Components of other comprehensive income that can not be reclassified to profit or loss:			
Actuarial gains/(losses)		11,038	(2,548)
Components of other comprehensive income that can be reclassified to profit or loss:			
Positive effects of changes in fair value of financial assets available for sale		152,793	78,298
Unrealized losses from financial assets available for sale		(9,527)	(474)
Loss from taxes related to other comprehensive income		(19,984)	(11,673)
Total other comprehensive income		**134,320**	**63,603**
TOTAL RESULT OF PERIOD		**2,766,560**	**2,128,523**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, February 28, 2018

Stevan Čomić
Head of the Accounting and Controlling Division

Aleksandra Radić
Executive Board Member

Slavko Carić
Executive Board Chairman

BALANCE SHEET AS AT 31 DECEMBER 2017

ASSETS *(In RSD '000)*

	Note	31.12.2017.	31.12.2016. restated	1.1.2016. restated
Cash and balances with Central bank	15	20,774,027	19,246,670	18,523,428
Financial assets held for trading	16	11,539,464	13,048,357	8,363,472
Financial assets available for sale	17	12,488,593	7,182,702	3,446,272
Financial assets held to maturity	18	8,284,452	8,635,103	7,008,412
Loans and receivables to banks and other financial institutions	19	2,210,553	1,211,779	2,733,351
Loans and receivables to customers	20	104,140,053	91,213,573	75,182,667
Investments in subsidiaries	21	93,56	93,56	93,56
Intangible assets	22	247,298	278,845	350,854
Property, plant and equipment	22	1,070,689	811,073	733,119
Investment property	22	-	232,417	238,508
Current tax asset		-	-	1,116
Deferred tax asset	14	-	59,523	161,382
Fixed assets held for sale and assets of discontinued operations		11,901	56,294	-
Other assets	23	1,060,415	846,585	651,624
TOTAL ASSETS		**161,921,005**	**142,916,481**	**117,487,765**

LIABILITIES AND EQUITY

	Note	31.12.2017.	31.12.2016. restated	1.1.2016. restated
LIABILITIES				
Financial liabilities carried at fair value through profit and loss held for trading	24	44,458	54,69	94,235
Deposits and other liabilities to banks, other financial institutions and Central Bank	25	45,570,431	46,322,420	38,959,047
Deposits and other liabilities to other customers	26	91,982,128	75,290,829	59,618,511
Subordinated liabilities	27	1,354,523	1,764,606	1,824,946
Provisions	28	752,742	670,642	534,486
Current tax liabilities	14	160,965	1,09	-
Deferred tax liabilities	14	5,248	-	-
Other liabilities	29	1,155,947	684,202	457,059
TOTAL LIABILITIES		**141,026,442**	**124,788,479**	**101,488,284**
Equity	30			
Share capital		10,164,475	10,164,475	10,164,475
Retained earnings		2,632,240	2,064,920	1,189,456
Reserves		8,097,848	5,898,607	4,645,550
TOTAL EQUITY		**20,894,563**	**18,128,002**	**15,999,481**
TOTAL LIABILITIES AND EQUITY		**161,921,005**	**142,916,481**	**117,487,765**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, February 28, 2018

Stevan Čomić	Aleksandra Radić	Slavko Carić
Head of the Accounting and Controlling Division	Executive Board Member	Executive Board Chairman

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

(In RSD '000)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total
Opening balance at January 1, 2016	10,040,000	124,475	4,425,448	220,102	1,189,456	15,999,481
Total other comprehensive income	-	-	-	63,601	-	63,601
Profit for the year	-	-	-	-	2,064,920	-
Transfer from profit to reserves	-	-	1,189,456	-	(1,189,456)	-
Balance at December 31, 2016	**10,040,000**	**124,475**	**5,614,904**	**283,703**	**2,064,920**	**18,128,002**
Opening balance at January 1, 2017	**10,040,000**	**124,475**	**5,614,904**	**283,703**	**2,064,920**	**18,128,002**
Total other comprehensive income	-	-	-	134,321	-	134,321
Profit for the year	-	-	-		2,632,240	2,632,240
Transfer from profit to reserves	-	-	2,064,920	-	(2,064,920)	-
Balance at December 31, 2017	**10,040,000**	**124,475**	**7,679,824**	**418,024**	**2,632,240**	**20,894,563**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, February 28, 2018

Stevan Čomić Head of the Accounting and Controlling Division	Aleksandra Radić Executive Board Member	Slavko Carić Executive Board Chairman

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

(In RSD '000)

	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**9,964,460**	**9,148,131**
Interest receipts	7,465,155	6,830,635
Fee and commission receipts	2,274,705	2,158,240
Receipts of other operating income	224,351	158,855
Dividend receipts and profit sharing	249	401
Cash used in operating activities	**7,258,333**	**6,796,184**
Interest payments	1,323,969	1,322,370
Fee and commission payments	772,163	684,704
Payments to, and on behalf of employees	1,910,860	1,755,729
Taxes, contributions and other duties paid	310,225	350,445
Payments for other operating expenses	2,941,115	2,682,936
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**2,706,127**	**2,351,947**
Decrease in placements and increase in deposits and other liabilities	7,319,077	17,831,109
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	7,319,077	17,831,109
Increase in loans and decrease in deposits received and other liabilities	**17,132,466**	**18,153,975**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	13,962,615	12,966,385
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for trading	3,169,852	5,187,590
Net cash generated by operating activities before income taxes	-	**2,029,081**
Net cash used in operating activities before income taxes	**7,107,262**	-
Net cash generated by operating activities	-	**2,029,081**
Net cash used in operating activities	**7,107,262**	-
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**308,029**	-
Cash inflows from investment in securities	**34,475**	-
Cash inflows form investment properties	**273,554**	-
Cash outflows from investment activities	**413,912**	**4,913,728**
Cash used for investments in investment securities	-	4,624,630
Cash used for investments in property	413,912	289,097
Other outflows from investment activities	-	1
Net cash flow from investment activities	**105,883**	**4,913,728**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financial activities	**8,738,852**	**5,355,649**
Inflows from the borrowings	8,569,624	5,317,962
Other inflows from financing activities	169,228	37,687
Cash outflows from financial activities	**420,315**	**99,886**
Cash used for subordinated liabilities	410,083	60,342
Other outflows from financing activities	10,233	39,544
Net cash inflows from financial activities	**8,318,537**	**5,255,763**
TOTAL CASH INFLOWS	**26,330,418**	**32,334,889**
TOTAL CASH OUTFLOWS	**25,225,026**	**29,963,773**
NET INCREASE IN CASH	**1,105,392**	**2,371,116**
NET DECREASE IN CASH	-	-
CASH AT THE BEGINING OF THE YEAR	**11,300,417**	**8,726,264**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**10,214,318**	**6,670,645**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**9,989,258**	**6,467,608**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**12,630,868**	**11,300,417**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, February 28, 2018

Stevan Čomić Head of the Accounting and Controlling Division	Aleksandra Radić Executive Board Member	Slavko Carić Executive Board Chairman

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

1. GENERAL INFORMATION

Erste Bank a.d., Novi Sad (the "Bank") was founded on December 25, 1989, under the name of Novosadska banka a.d., Novi Sad. At the beginning of August 2005, subsequent to the successful finalization of privatization process, it became a member of Erste Bank Group.

In accordance with the Decision of the Business Registers Agency no. BD 101499/2005 dated 21 December 2005, the change of the previous name Novosadska banka a.d., Novi Sad to Erste Bank a.d. Novi Sad was registered.

The Bank's shareholders are Erste Group Bank AG, Vienna ("Erste Group") with a 74% interest and Steiermärkische Bank und Sparkassen AG, Graz with a 26% interest in the Bank's share capital. For simplification of Erste Group Bank AG's structure, the ownership of shares of the banks in Europe held by EBG CEPS was transferred to Erste Group. In this manner Erste Group became a direct shareholder of the Bank with 74% of its shareholding. The Bank's Shareholder Assembly enacted the relevant decision on amendment to the Articles of Association and the changes in this respect were registered with the Serbian Business Registers Agency on June 22, 2015.

As of January 15, 2014, under the Agreement on Purchase and transfer of Equity Interest executed by and between Steiermärkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH, the Bank acquired a 75% equity interest in the company S-leasing d.o.o., Serbia, while the remaining 25% are held by Steiermärkische Bank und Sparkassen AG. Moreover, in 2014 the Bank acquired a 19% equity interest in S Rent d.o.o., Serbia.

Through this transaction, both companies remained members of Erste Group.

The Bank is registered in the Republic of Serbia to provide banking services of payment transfers in the country and abroad, lending and depositary activities in the country, payment card transactions, operations involving securities and broker-dealer activities. In accordance with the Law on Banks, the Bank operates on the principles stability and security.

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 7 business centres, 46 branches, 9 sub-branches and 4 counters.

As of 31 December 2017 the Bank had 1,075 employees (December 31 2016: 1,021 employees).

The Bank's corporate ID number is 08063818, and its tax ID number (fiscal code) is 101626723.

The Bank's SWIFT code is GIBARS22 and its website is www.erstebank.rs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Separate Financial Statements

The Bank's separate financial statements (the "financial statements") for 2017 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

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. 71/2014 and 135/2014).

The Bank holds a 75% interest in the equity of its subsidiary S-leasing d.o.o., Serbia (25% is held by Steiermärkische Bank und Sparkassen AG). In these financial statements, the Bank stated its equity investment held in the subsidiary at cost.

These financial statements were prepared at historical cost principle, except for the following items measured at fair value: financial assets at fair value through profit and loss, held for trading, financial assets available for sale and derivatives

Figures in the accompanying financial statements are stated in thousands of dinars, unless otherwise specified. Dinar (RSD) represents the Bank's functional and presentation currency. All transactions executed in other than functional currencies are treated as foreign currency transactions.

The accompanying financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described further in Note 2.

A) New and amended standards and interpretations

The new and amended IFRSs, set out below, shall enter into force on 1 January 2017:

- **IAS 7 Cash Flow Statement (Amendment): Disclosure**

  The standard is applicable starting from or after January 1, 2017, with the possibility of early application. The aim of this amendment is to enable users of financial statements to assess changes in the obligations arising from financing activities, including changes arising both from monetary and non-monetary changes. The amendment defines that the only way to meet the disclosure requirement is a tabular presentation of the opening and closing balance sheet balances for liabilities arising from financing activities, including changes in cash flows from financing activities, changes arising from the acquisition of control and the sale of a share or interest, exchange rate effect, change in fair value and other changes. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- The International Accounting Standards Board issued the **Annual Improvements to IFRS 2014-2016**, which is a set of amendments to existing IFRSs. Amendments to Standards are Applicable for periods beginning from or after 1 January 2017 for IFRS 12 Disclosure of interest in other entities and for periods beginning from or after 1 January 2018 for IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 28 Investments in Associated Entities. The possibility of earlier application is permitted for IAS 28 Investments in associated Entities. It is not expected that changes to IFRS 12 will have an impact on the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A) New and amended standards and interpretations (continued)

- **IAS 12 Income Tax (Amendment): Recognition of deferred tax assets for unrealized losses**

  The amendments are applicable starting from or after January 1, 2017, with the possibility of early application. The aim of these amendments is to clarify the calculation of deferred tax assets for unrealized losses, in order to respond to the different implementation of IAS 12 in practice. Specific problems for which there are different solutions in practice relate to cases where a deductible temporary difference arises after the decrease in fair value, then to a recovery of an asset higher than its carrying amount, to a probable future taxable profit, and a combined estimate against a single estimate. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

B) Standards issued but not yet entered into force and have not been adopted before

International Financial Reporting Standard 9 Financial Instruments

On July 2014 IASB issued IFRS 9 Financial Instruments, a standard that will replace IAS 39 from January 1, 2018. IFRS 9 addresses the three main areas of accounting for financial instruments: classification and measurement of financial assets and liabilities, introduces new principles for hedge accounting and a new impairment model for financial assets.

The Bank has established an Implementation Team ("Team") with members from risk, finance and operations teams for the preparation and implementation of IFRS 9 ("Project"). The sponsor of the project is a member of the Executive Committee responsible for risks and finances, which regularly reports to the Supervisory Board of the Bank, and the project is managed in the framework of the Bank's transformation. The Bank's C & M team defined the FV / AC checking process in the initial credit recognition as well as the subsequent modification of the loan. All changes and alignment of the primary bank system required to support the process were carried out in 2017. Regarding the impairment of financial assets, the Bank in parallel with the development of parameters, worked on the methodology, processes and technical solution for defining the level and calculation of reserves in accordance with the new standard.

IFRS 9 introduces two criteria for the classification and measurement of financial assets: 1) an entity's business model for managing the financial assets and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortized cost ("AC") only if both of the following conditions are met: a) the asset is held within a business model whose objectives to hold assets in order to collect contractual cash flows ('held to collect') and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Measurement at fair value through other comprehensive income ("FVOCI") is applicable to financial assets held within a business model whose objective is achieved by both collecting of contractual cash flows and selling the assets ("hold and sell") while the condition b) is also fulfilled. All other financial assets are measured at fair value through profit or loss ("FVTPL").

In respect of the business model criterion, the Bank has to assess the expected selling activity of financial assets. Sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory environment, severe liquidity crisis) are considered as not contradicting the "held to collect" business model. Other kinds of sales are expected to be insignificant as to their volume. As a result, sales are incidental in the "held to collect" business model.

Regarding the contractual cash flows characteristics criterion, the Bank concluded that the vast majority of its loan portfolio, which is currently classified as loans and receivables, will continue to be measured at AC.

Investments in equity instruments that are currently categorised as available-for-sale will be categorised as FVTPL.

When it comes to classification and measurement of financial liabilities, upon transition to IFRS 9, there are no changes in classification and valuation in relation to IAS 39.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Standards issued but not yet entered into force and have not been adopted before (continued)

International Financial Reporting Standard 9 Financial Instruments (continued)

The hedge accounting model is not relevant to the Bank since we do not apply the hedge accounting.

The new impairment model requires recognition of credit loss allowances ('CLA') based on expected credit losses ('ECL') rather than only incurred credit losses, as is the case under IAS 39. It applies to credit risk exposures stemming from debt instruments at AC or FVOCI, lease receivables, financial guarantee contracts and certain loan commitments.

For credit risk exposures that are not credit-impaired at initial recognition, the bank will recognize CLA at an amount equal to the 12-month ECL (referred to as "Stage 1") for as long as no significant increase in credit risk since initial recognition ("SICR") is identified at the reporting date. In the other cases, CLA is measured at lifetime ECL and the related instruments are referred to as "Stage 2", unless they are found to be credit-impaired at the reporting date (referred to as "Stage 3"). For purchased or originated credit-impaired financial assets ('POCI'), only adverse changes in lifetime ECL after the initial recognition are distinctly recognized as CLA, whilst favourable changes are recognized as impairment gains increasing the carrying amount of the related POCI assets.

For lease receivables and trade receivables containing a significant financing component (where the Bank also includes its factoring receivables), IFRS 9 allows a simplified impairment approach, whereby credit loss allowances are always measured at lifetime ECL. The Bank will not apply this simplification.

In the area of ECL modelling and CLA calculation, the Bank has identified a number of key drivers, as follows:

a) the "credit-impaired" definition

In respect of applying the "credit impaired" concept of IFRS 9, the Bank generally adopted the approach of aligning it with the regulatory concept of "default" for lending exposures. If the default status exists already at an exposure's initial recognition (e.g. in the context of a significant distressed restructuring), then that exposure is identified as POCI.

b) the SICR indicators applicable to not-credit impaired exposures

Across portfolios and product types, a number of quantitative and qualitative SICR indicators have been defined, in addition to the SICR indicator of 30 days-past-due.

Thus, SICR is quantitatively measured by reference to the adverse change, since instrument's initial recognition, in the current annualised remaining lifetime probability of default ('PD') and in the current 12-month PD. Significance of such change is assessed by reference to a combination of relative and absolute change thresholds. The thresholds are established at PD segment level or client rating level, as appropriate, and are subject to initial and on-going validation.

Qualitative SICR indicators include forbearance-type flags, a work-out transfer flag, information from early-warning-system that is not sufficiently reflected in rating grades, as well as fraud indicators. The assignment of some specific qualitative indicators inherently relies on experienced credit risk judgment being excercised adequately and timely. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Standards issued but not yet entered into force and have not been adopted before (continued)

International Financial Reporting Standard 9 Financial Instruments (continued)

Upon transition to IFRS 9, the SICR has to be determined in respect of PDs which existed at instruments' initial recognition. Where retrospective identification PDs at initial recognition was not possible without undue cost or effort, the bank implemented the following sequence of approximation methods: closest rating to initial recognition, re-rating based on historic data with current rating model, best possible rating for the relevant portfolio at the time, first available rating.

Application of the "low credit risk exemption" allowed by IFRS 9 for "investment grade" or other "low risk" –deemed assets (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) will be limited to particular types of debt securities and counterparty categories, and only if supported by sufficient "low risk" evidence at local level.

c) ECL modelling

The key risk parameters used in the measurement of ECLs - PD, loss given default ('LGD') and exposures at default ('EAD') - are derived from internally developed statistical models and other historical data that leverage regulatory models.

The PD describes a probability that a client will default on the related loan obligation. The 12-month PD reflects the estimated probability of default within one year from the reporting date, whilst the lifetime PD indicates the estimated probability of default until instrument's maturity and cumulates conditional marginal 12-month PD estimates attributable to each year until maturity. The PD estimation methods used in Erste Group depend on the segmentation criteria defined by the relevant local strategic risk management units. The applicable estimation methods include average default rate analysis and an internal/external migration matrices and consider adjustments to the point-in-time estimate where applicable due to the time frame of the history of the data used for the assessment.

The LGD captures the loss rate in the case of default. In general, the selection of estimation method depends on portfolio, and whether the curve is defined on LGD segment, client or account level. The LGD estimation methods applicable in Erste Group include a simple scenario approach and an advanced multiple scenario approach. For defaulted exposures, the calculation methodology used is based on secured/unsecured characteristics of the account, the applied values are expert-based, regulated in accordance with the LLP backtesting, and the estimation of the LGD is ongoing and will be completed and implemented in 2018.

The EAD that is attributable to any given future year throughout an on-balance exposure's remaining maturity is approximated on the basis of exposure's current gross carrying amount multiplied by an amortization coefficient that depends on the exposure's contractual repayment type. For off-balance not credit-impaired exposures, the EAD approximation is based on the current nominal amount of the exposure, multiplied by the credit conversion factor.

d) Consideration of forward-looking information ("FLI")

Measurement of ECL and SICR assessment requires further consideration of FLI, which the Bank has addressed by introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the research department of Erste Group. Taking into account multiple scenarios, the "neutral" PDs (and also LGD, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Standards issued but not yet entered into force and have not been adopted before (continued)

International Financial Reporting Standard 9 Financial Instruments (continued)

Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. FLI is not initially applied in the Bank and is planned to be implemented in 2018.

Transition to IFRS 9 is expected to result in an increase of the 2018 opening balance of credit loss allowances compared to the 2017 closing balance of loan loss provision under IAS 39 (including provisions for off-balance exposures treated under IAS 37) by approximately RSD 664 million, out of which RSD 659 million relates to the Bank and RSD 5 million to S-Leasing.

In addition to the above mentioned effect, the Bank's management expect the following effects as a result of the transition to IFRS 9: decrease of equity in approximate amount of RSD 31 million resulting from retrospective application of modification losses, increase of equity in approximate amounts of RSD 87 million and RSD 5 million as a result of collected suspended interest and change in equity instruments measurement, respectively, whereas the expected tax impact is approximately RSD 10 million.

- **IFRS 15 Revenue from contracts with customers**

The standard is applicable starting from or after January 1, 2018. IFRS 15 establishes a five-step model to be applied to contract revenue with customers (with a limited number of exceptions), regardless of the type of revenue or industry. Standard requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets, which is not a consequence of the Bank's usual activities (e.g. sale of fixed tangible or intangible assets). The standard requires detailed disclosures, including the classification of total revenues, information on the performance obligations of the contract, changes in the status of assets and liabilities under the contracts between periods, and key estimates. It is not expected that the requirements of this standard will have a significant impact on the Bank's financial statements.

- **IFRS 15 Revenue from contracts with Customers (clarifications)**

The clarifications of the standards will apply starting from or after January 1, 2018, with the permitted prior application. The objective is to clarify the intention of the International Accounting Standards Committee to define the requirements of IFRS 15 Revenue from contracts with customers, especially in the part relating to the accounting coverage of identified performance commitments, clarifying the principle of "individual identification", the principal-agent problem whether the Company is a principal or agent), as well as the application of control access and licensing, providing additional guidance for the accounting treatment of intellectual property and copyrights. Clarifications also provide additional practical advice to the Bank that will apply IFRS 15 completely retrospectively, or which will choose the application of a modified retrospective approach. It is not expected that the requirements of this standard will have a significant impact on the Bank's financial statements.

- **IFRS 16 Leasing**

The standard is applicable starting from or after January 1, 2019. IFRS 16 defines the initial recognition, measurement and disclosure of leasing for both parties to the contract, i.e. for the buyer ("borrower") and for the supplier ("the lender"). A new standard requires the borrower to recognize most of the loans in their financial statements. Lenders will have one accounting model for all types of leasing, with some exceptions. The lender's accounting remains essentially unchanged. The Bank's management is in the process of determining the effects that the application of this standard will have on the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Standards issued but not yet entered into force and have not been adopted before (continued)

- **IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates: Selling assets between an Investor and a Subsidiary (Amendment)**

Amendments indicate a known disagreement between the requirements in IFRS 10 and those in IAS 28 relating to the sale or entry of assets between the investor and its subsidiaries and joint ventures. The result of the amendment is that the total loss or gain is recognized when the transaction affects the business, whether it is a subsidiary or not. A partial gain or loss is recognized when a transaction is tangible to assets that are not essential for the conduct of a business, even when these assets are part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard pending the outcome of the survey on the method of participation. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IFRS 2: Classification and evaluation of share payments (Amendment)**

Amendments to the standards are applicable for a period beginning on or after 1 January 2018, with the possibility of early application. Amendments to the standards relate to the requirements for the accounting presentation of the effects of the fulfilment and non-fulfilment of the conditions for acquiring in the valuation of transactions in cash-based transactions, in the payment transactions of shares with net settlement characteristics when calculating the tax-deductible tax liability and in changing the terms and conditions of payment for shares changing the classification of the transaction from cash-based payment transactions for equity-based equity. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

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

Amendments to the standards are applicable for a period beginning on or after 1 January 2018, with the possibility of early application. Amendments to Standards indicate when an entity needs to perform a property transfer, including assets in preparation or development in, or from investment property. Amendments state that a change in use occurs when the asset fills up, or ceases to fulfil, the definition of an investment property, and there is evidence of a change in its use. Changing the intention of the management regarding the way of using the property does not provide evidence of changing its use. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IFRS 17: Insurance Contracts**

The standard is applicable for a period beginning on or after 1 January 2021, with the possibility of early application. IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Standards issued but not yet entered into force and have not been adopted before (continued)

- **IFRIC Interpretation 22: Foreign Currency Transactions and Advance Review**

The interpretation is applicable for a period beginning on or after 1 January 2018, with the possibility of early application. This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

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

The interpretation is applicable for a period beginning on or after 1 January 2019. IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

The following other new pronouncements are not expected to have any material impact on the Bank's financial statements:

- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Interest income and expenses

Interest income and expenses, including penalty interest and other income and other expenses from interest bearing assets, i.e. liabilities are recognized on an accrual basis under obligatory terms defined by a contract executed between the Bank and a customer.

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available for sale, interest income and expense are recognized using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

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

2.3. Fee and Commission Income and Expenses

Fee and commission income and expense arising from the providing or use of banking services are recognized on the basis of the causation principle of income and expense, i.e. on an accrual basis and are determined for the period when they were realized, or when the service is provided.

Fees and commission income are earned from a diverse range of banking services provided to clients. Fee income can be divided into the following three categories:

/i/ Fee Income Earned from Services Rendered Over a Certain Period of Time

Loan origination fees for loans likely to be drawn down and other loan-related fees are deferred (together with any incremental costs) and recognized as adjustment to the loan effective interest rate.

/ii/ Fee Income Earned from Transaction Services

Fees or components of fees that are linked to the performance of certain transactions are recognized upon fulfilment of the corresponding criteria.

/iii/ Dividend Income

Dividend income is recognized when the Bank’s right to receive the payment is established.

2.4. Foreign Exchange Translation

Financial statement items are stated using the currency of the Bank's primary economic environment (functional currency). The accompanying financial statements are stated in thousands of dinars (RSD).

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market and effective at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market prevailing as of that date.

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses and positive or negative currency clause effects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Foreign Exchange Translation (continued)

Gains or losses realized/incurred upon translation of financial assets and liabilities with a currency clause index are recorded within the income statements as foreign exchange gains or losses and positive or negative currency clause effects.

Commitment and contingent liabilities in foreign currencies are translated into dinars at official middle exchange rates of the National Bank of Serbia effective as at the reporting date.

2.5. Financial Instruments

All financial instruments are initially recognized at fair value (except for financial assets and financial liabilities at fair value through profit and loss), increased by transaction costs that are directly attributable to their acquisition or issue.

Financial assets and financial liabilities are recognized in the Bank's statement of the financial position on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date the assets is delivered to the counterparty.

"Day 1" Profit

When the transaction price in a inactive market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement. In the event that the difference in the price of the transaction and the fair value is determined on the basis of non-market parameters, the gain / loss on the first day is deferred into the duration of the financial instrument.

Classification of Financial Instruments

The Bank's management determines the classification of its financial instruments at initial recognition. Classification of financial instruments upon initial recognition depends on the purposes for which financial instruments have been obtained and their characteristics

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Subsequent measurement of financial assets depends on their classification as follows:

2.5.1. Financial Assets at Fair Value through Profit and Loss

This category includes two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at initial recognition.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or re-purchase in the short term, in order to generate gains from short-term changes in the prices of these assets. These assets are recorded in the balance sheet at fair value.

The Bank also has derivatives classified as assets at fair value through profit and loss.

The management did not classify financial instruments, on initial recognition, into the category of the financial assets stated at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.1. Financial Assets at Fair Value through Profit and Loss (continued)

Securities held for trading comprise the Republic of Serbia Government savings bonds and Treasury bills.

All realized or unrealized gains and losses arising upon measurement and sale of financial assets at fair value are stated in the Income statement.

2.5.2. Financial Assets Held to Maturity

Securities held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity and that do not meet the criteria of the definition of loans and receivables.

After initial recognition, securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment or impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

Interest accrued on such instruments is credited to interest income in the profit and loss account using the effective interest method. Fees that are part of the effective interest on these instruments are recognized in the income statement over the life of the instrument.

The Bank performs individual assessment in order to determine whether there is objective evidence on impairment of the investment into securities held-to-maturity.

If there is objective evidence that such securities have been impaired, the amount of impairment loss for investments held to maturity is calculated as the difference between the investment's carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate and stated in the income statement as losses from impairment of financial assets.

If, in a subsequent year, the amount of the estimated impairment loss decreases as a consequence of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced and effects are credited to the income statement. Reversal of the impairment allowance will not result in the carrying value of an asset in excess of the amortized cost as if the asset had not been impaired.

2.5.3. Loans and Receivables due from Banks and Customers

Loans and receivables are assets that the Bank does not intend to sell in the near term and those that are not classified, after initial recognition, as financial assets at fair value through profit and loss or financial assets available for sale.

After initial recognition, loans and receivables are measured at their amortized cost using the effective interest method less impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and any issue costs and that are integral part of the effective interest rate Interest income in respect of these instruments are recorded and presented under interest income within the income statement. Any impairment losses are recognized within net losses from impairment of financial assets within the income statement.

Loans in dinars for which risk protection has been agreed by linking the dinar exchange rate against the foreign currency are revalued in accordance with the specific contract for each loan. The difference between the value of the outstanding principal and the amount calculated using the currency clause is recorded within the given loans and deposits. Gains and losses arising from the application of a foreign currency clause are recorded in the income statement as income/expense foreign exchange rate differences based on the contractual currency clause.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.3. Loans and Receivables due from Banks and Customers (continued)

Derecognition of Financial Assets and Liabilities

The Bank derecognizes financial assets when it transfers risk and rewards of contractual rights over such instruments, which occurs when the when the contractual rights to the cash flows from the financial asset have been realized, cancelled or ceded or they expire. When the Bank transfers the contractual rights to the cash flows from a financial asset or executes a contract on such transfer, and thereby the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset, the asset is recognized to the extent of the Bank's involvement in respect of the asset. Any further involvement of the Bank in the transferred asset, in the form of a guarantee for the asset transferred, is measured at the lower of the asset's original carrying value and the maximum amount of the consideration the Bank will need to pay.

In case of significant modifications of contractual terms (such as reprogramming), the Bank ceases to recognize the old asset and recognize a new, modified asset.

A financial liability is derecognized when its contractual obligation is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the simultaneous recognition of a new liability, with the difference between the respective carrying amounts recognized in the income statement.

Impairment of Financial Assets and Risk Provisions

In accordance with the Bank's internal policy, at each reporting date the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Initially, the Bank assesses impairment on a group (portfolio) basis before deterioration of a borrower's creditworthiness is identified (e.g. increased number of days past due).

In assessing impairment of loans and receivables due from banks and customers measured at amortized cost, in instances of identified deterioration in borrowers' creditworthiness, the Bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.3. Loans and Receivables due from Banks and Customers (continued)

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and its recoverable value, being the present value of estimated future cash flows, discounted at the original effective interest rate for that particular financial asset. If a loan has a variable interest rate, current effective interest rate is applied.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset, in addition to the cash flows from the borrower's operating activities, reflects the cash flows that may result from collateral foreclosure.

For the purpose of group (collective) impairment assessment, financial assets are grouped on the basis of the Bank's internal classification system that takes into account credit risk characteristics such as the borrower's financial situation, loan type, operating segment the borrower belongs to, existence of the other receivables matured due form the same borrower, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of expert opinion supported by historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The Bank reviews the methodology and assumptions used for estimating future cash flows on an annual basis in order to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the loan is reduced through the use of an allowance account and the amount of the impairment loss arising from impairment of loans and receivables, as well as other financial assets measured at amortized cost, is recognized in the income statement within net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets. A financial asset is deemed irrecoverable when the Bank has no realistic expectation of its recovery. Indicators of probable irrecoverability include: borrower's delay in liability settlement, instigation of the bankruptcy or liquidation procedures, deletion of the borrower from the Business Entity Register, borrower's contestation of the Bank's receivables upon balance reconciliation of receivables and liabilities, etc.

Receivables are written off only when all available sources of collection have been exhausted (e.g. bankruptcy proceedings ended, lawsuit completed, all available collaterals activated, borrower's assets cross-checked). Loans and the related impairment allowances are derecognized (written off) when considered uncollectable. Write-offs are recorded either against the impairment allowance account or directly as expense on Income statement. Irrecoverable receivables are written off under the competent court ruling, the relevant decision of the Bank's Assembly of Executive Board when there is no realistic prospect of their future recovery and all collaterals have been activated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.3. Loans and Receivables due from Banks and Customers (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement as gain on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet terms. Reversal of the impairment allowance will not result in the carrying value of an asset in excess of the amortized cost as if the asset had not been impaired.

2.5.4. Rescheduled Loans

Where possible, the Bank seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve extending the payment terms or any other modification to the original loan agreement provisions. Rescheduling or restructuring may be business rescheduling or forbearance as per EBA definition.

Business loan rescheduling entails alteration to the originally agreed loan terms not caused by the borrower's financial position deterioration, or mitigation of the consequences of the deteriorated financial position of the borrower, and does not represent restructuring. It is rather a result of a changed market situation (customers, suppliers, competitors) and the need to adjust the loan repayment schedule and terms to the newly arisen situation.

Forbearance represents restructuring caused by:

- the borrower's inability to fulfil its contractual obligations due to financial difficulties and
- the need of the Bank to make certain concessions to enable the borrower to service its liabilities.

Once the terms have been renegotiated, the loan is no longer considered past due, but if after restructuring evidence of impairment arises, the client will again be assigned the default status. The Bank continuously monitors rescheduled/restructured loans to ensure that all criteria are met, as well as that future payments are made or default status assigned in a timely manner to the clients not complying with the re-defined criteria.

2.5.5. Financial Assets Available for Sale

Securities intended to be held for an indefinite period of time, that can be sold or pledged with the National Bank of Serbia as collateral in order to obtain liquidity loans due to the need for securing liquidity, or changes in interest rates, foreign exchange rates or the cost of capital is classified as "financial assets available for sale". Financial assets available for sale include equity instruments of other legal entities and debt securities.

Subsequent to the initial measurement, these securities are measured at fair value. The fair values of securities quoted in active markets are based on current bid prices. Unrealized gains and losses are recognized within other comprehensive income until such a security is sold, collected or otherwise realized, or until it is impaired. In case of disposal of securities or their impairment, cumulative fair value adjustments are recognized in the statement of other comprehensive income.

Equity investments in other legal entities that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate are exempt from market fair value measurement and are stated at cost less any impairment allowance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.5. Financial Assets Available for Sale (continued)

Dividends earned whilst holding available-for-sale financial instruments are recognized within other operating income and dividend income and income from equity investments when the right to receipt of dividend has been established.

When it comes to equity and other securities available for sale, the Bank assesses at the balance sheet date whether there is objective evidence that one or more investments are impaired. In the case of equity participation in other legal entities classified as available-for-sale, fair or prolonged decline in the fair value of investments below the cost is classified as objective evidence.

When there is there is objective evidence of impairment, cumulative loss, measured as the difference between the cost and the current fair value of the asset, less any impairment loss of the investment previously recognized within profit and loss is reclassified from equity to profit or loss. Impairment allowances of available-for-sale investments are not reversed through profit and loss; subsequent increases of fair value, after recognition of impairment, are credited to equity.

Impairment allowances of equity investments, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured as the difference between the book value and the present value of expected future cash flows, and are recognized in the income statement and are not reversed before derecognition.

In case of debt securities that are classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortized cost. If there is an increase in fair value in the subsequent year, and if that increase may objectively refer to an event that occurred after the impairment loss had been recognized in the income statement, the impairment loss is reversed through profit or loss.

2.5.6. Issued Financial Instruments and Other Financial Liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Components of compound financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Subsequent measurement of financial liabilities depends on their classification as follows:

Deposits and Other Liabilities due to Banks and Customers

All deposits from other banks and customers and interest-bearing financial liabilities are initially measured at fair value less transaction costs, except for the financial liabilities at fair value through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.6. Issued Financial Instruments and Other Financial Liabilities (continued)

Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Borrowings are classified as current liabilities, unless the Bank has the unconditional right to postpone the settlement of obligations for at least 12 months after the reporting date.

Other Liabilities

Trade payables and other current operating liabilities are stated at nominal value.

2.6. Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if when there is a currently enforceable legal right to offset the recognized amounts and the Bank has an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.7. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Bank's dinars current accounts and cash in hand (both in dinars and foreign currency) and foreign currency accounts and deposits with up to 3-month maturities held with other domestic and foreign banks.

2.8. Repurchase Transactions ("Reverse Repo" Transactions)

Securities purchased under agreements to repurchase at a specified future date ('repos') are recognized in the statement of financial position.

The corresponding cash given, including accrued interest, is recognized in the balance sheet. The difference between the sale and repurchase prices is treated as interest income and is accrued over the life of the agreement.

2.9. Investments in Subsidiaries

Subsidiary is an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

On December 31, 2017, the Bank owns 75% of the ownership of the company S Leasing doo, Belgrade. Participation in the capital of the said dependent legal entity is stated at the cost less any allowance for impairment in the individual financial statements of the Bank.

2.10. Intangible Assets

Intangible assets are measured at cost, less accumulated amortization and impairment losses, if any. Intangible assets comprise licenses and other intangible assets.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least once a year, at the financial year-end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Intangible Assets (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization of intangible assets is calculated using the straight-line method to write off the cost of intangible assets over their estimated useful lives, as follows:

Software licence	up to 10 years
Other intangible assets	4 years

The amortization cost on intangible assets with finite lives is recognized in the income statement.

Costs associated with developing and maintaining computer software programs are recognized as expenses when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Property, Plant and Equipment and Investment Property

Property, plant and equipment and investment property are stated at cost less accumulated depreciation and impairment losses, if any.

Costs include all expenses directly related to purchase of property, plant and equipment.

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

The Bank has investment property held to earn rental income or capital appreciation. Investment property is measured at cost less accumulated depreciation and impairment losses, if any.

Depreciation is provided for on a straight-line basis to the cost of fixed assets, using the following prescribed annual rates, in order to write them off over their useful lives:

Buildings	40 years
Computer equipment	4 years
Other equipment	5 to 10 years

Changes in the expected useful lives of assets are accounted for as changes in the accounting estimates.

Calculation of depreciation of property and equipment commences at the beginning of month following the month when an asset is placed into use. Assets under construction are not depreciated. The depreciation charge is recognized as an expense for the period in which incurred.

Investments in property, plant and equipment of others are depreciated in accordance with the duration of the rental contract.

Gains from the disposal of property and equipment are credited directly to other income, whereas any losses arising on the disposal of property and equipment are charged to other operating expenses.

2.12. Impairment of Non-Financial Assets

In accordance with the adopted accounting policy, at each reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13. Leases

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement transfers the right to use the assets.

(a) Finance Lease – the Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments and included in property and equipment with the corresponding liability to the lessor included in other liabilities.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

Lease payments are apportioned between the cost of financing and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Cost of financing is charged directly in the income statement as an interest expense.

(b) Operating Lease – the Bank as Lessee

A lease is classified as an operating lease if it does not transfer to the Bank substantially all the risks and rewards incidental to ownership.

Payments made under operating leases are charged to other operating expenses in the income statement (when they occur) on a straight-line basis over the period of the lease.

2.14. Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates of provisions are considered, determined and, if necessary, adjusted at each reporting date. Provisions are measured at the present value of estimated future cash outflows necessary to settle the liabilities arising thereof, using the discount rate which reflects the current market estimate of the value of money.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed by cancelation of the current year's expenses, i.e., reversed to income if the provision was made in the previous period. Provisions are taken into account in accordance with their type and they can be used only for the expenses for which they were initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements. They are disclosed in notes to the financial statements if an inflow of resources embodying economic benefits is probable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Employee Benefits

(a) Employee Taxes and Contributions for Social Security - Defined Benefit Plans

In accordance with the Republic of Serbia regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the 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 funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

(b) Other Employee Benefits – Retirement Benefits and Jubilee Awards

In accordance with the Collective Bargaining Agreement the Bank is obligated to pay its vesting employees retirement benefits in the amount of three average monthly salaries paid in the Republic of Serbia in the month prior to the month of the retirement according to the most recent data published by the Republic of Serbia Statistical Office or three average salaries paid by the Bank in the month prior to the month of the retirement, or 3 monthly salaries of the employee prior to the month of the retirement, whichever arrangement is most favourable for the retiree.

In addition, in accordance with the Collective Bargaining Agreement, employees are entitled to jubilee awards for ten, twenty, thirty and forty consecutive years of service with the Bank. Jubilee awards are paid in the respective amounts of one, two or three average salaries paid by the Bank in the month prior to the date of payment, depending on duration of the continuous service with the employer.

Expenses and liabilities for the plans are not funded. Liabilities for benefits and related expenses are recognized in the amount of present value of estimated future cash flows using the actuarial projected unit credit method.

Actuarial gains and losses and past service costs are recognized in the income statement when realized/incurred, while actuarial gains and losses in respect of retirement benefits upon retirement are recognized in other comprehensive income.

(c) Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the reporting date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of payment guarantees and performance guarantees, letters of credit, acceptances and other warranties. Financial guarantees are contracts which obligate the issuer of a guarantee to perform the payment or compensate the loss to the holder of a guarantee, incurred if a certain client fails to settle its liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is issued. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligations arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is recognized in the income statement. The premium received is recognized in the income statement within the fee and commission income on a straight-line basis over the life of the guarantee.

The contractual guarantees are contracts that provide compensation if the other party fails to fulfil its contractual obligation. Such contracts are transferred, in addition to the credit and non-financial risks of execution. Performance guarantees are initially recognized at fair value, which is usually proven by the amount of compensation received. This amount is amortized diligently during the term of the contract. At the end of each reporting period, performance guarantees contracts are measured in excess of (i) the unamortised amount at initial recognition and (ii) the best estimate of the cost of the needs for the settlement of the contract at the end of the reporting period discounted to the present value.

2.17. Assets acquired through collecting receivables

The Bank assumes assets (collaterals) as a form of collection in cases of lending with problems in repayment. The basic reasons are to enable collateral control and protect collateral value in illiquid or problematic markets by setting the market base and, as a defence strategy, a strategy against losing property at auction at an inadequate price. The conversion of bad placements into tangible assets is also seen as a measure to improve the cost control per Bank and to avoid further deterioration of value.

Assets acquired in such a way can be classified as:
1) Tangible assets held by the Bank for their use (IAS 16, Assets, plant and equipment)
2) Investment property (IAS 40 Investment Property)
3) Assets acquired through collecting receivables (IAS 2 Inventory)
4) Fixed assets held for sale (IFRS 5)

Assets acquired through collecting receivables are recorded at the purchase price in RSD.

Tangible assets of the Bank used by the Bank are recorded at cost and depreciated in accordance with the Bank's Accounting Policy and the IFRS Accounting Manual Erste Bank ad Novi Sad

An investment property is a property owned by the owner for the purpose of generating rental income. The original investment is recognized at cost and amortized in accordance with the Bank's Accounting Policy and the IFRS Accounting Manual Erste Bank ad Novi Sad

In accordance with IAS 2, inventories are valued at the lower of the following two values, purchase price / cost and net realizable value (selling prices less for the cost of sales).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Assets acquired through collecting receivables (continued)

From the balance sheet date, the Bank's management analyses the value of the inventory according to which the assets of the Bank are disclosed. If there is an indication that a property is impaired, the recoverable amount of the asset is estimated to determine the amount of the impairment. If it is estimated that the recoverable amount of the property is lower than the value at which the property is disclosed, the present value of such assets is reduced to the amount of the realisable value.
The Risk Management Department performs evaluation. The write-offs of inventories to the net generated value, as well as the losses of inventories, are recognized as the expense of the period during which the write-off occurred and the occurrence of the loss.

Fixed assets intended for sale are valued at a lower value than the carrying amount that would have been classified as held for sale (cost) and fair value less costs to sell. These assets are not depreciated because this classification implies fast and certain sale.

If, during the holding of assets, the criteria for the classification of assets for sale are not met, it is necessary to reclassify and adjust its carrying amount and effects recognized in the income statement for the period when the reclassification occurred.

2.18. Taxes and Contributions

(a) *Income Taxes*

Current Income Tax

Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. During the year, the Bank pays income tax in advance in monthly instalments determined on the basis of the prior year income tax return. The ultimate tax base to which the prescribed income tax rate of 15% is applied is determined in the Bank's income tax statement and reported in the annual tax return.

In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as shown in the tax return. The tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e. until June 30 of the following year.

Taxpayers that had acquired the entitlement to a tax credit for capital expenditures up to 2014 in accordance with the Republic of Serbia Corporate Income Tax Law may reduce up to 33% of the calculated income tax. The unused portion of the tax credit may be carried forward and used against the income tax of the future periods but only for a duration of no longer than ten ensuing years, or up to the amount of the tax credit carried forward.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years.

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The tax rate used to calculate deferred tax amounts equals 15%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Taxes and Contributions (continued)

(a) *Income Taxes (continued)*

Deferred Income Taxes (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and associates when deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current and deferred taxes are recognized as income or expenses and are included in the net profit/(loss) for the period.

Deferred income taxes related to items that are recorded directly in equity are also recognized in equity.

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank’s operating result include property taxes, value added tax, payroll contributions charged to the employer and various other taxes, contributions and duties payable under the republic and municipal tax regulations. These are included under operating and other expenses within the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Segment Reporting

The Bank's management monitors operating segments in accordance with the methodology and segmentation defined at the level of Erste Group and on such basis makes decisions about, allocates resources to and assesses the performance of the individual segments. Segment reporting is performed and the report is prepared in compliance with FINREP reporting methodology used in Erste Group where there are departures within certain items from the result stated using the local NBS methodology.

2.20. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties are disclosed within off-balance sheet items. The Bank bears no risk in respect of such funds.

2.21. Reclassification of comparative information

During the preparation of these financial statements, the Bank became aware that as at 31 December 2016 an amount of RSD 340 thousand was erroneously classified in Loans and receivables to customers instead of Loans and receivables to banks and other financial institutions, and that amount of RSD 9,612,501 thousand was erroneously classified in Deposits and other liabilities to other customers instead of Deposits and other liabilities to banks, other financial institutions and Central Bank.

The amounts represent receivables and liabilities from credit arrangments with European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD).

These financial statements were restated to reclassify this amount in the balance sheet as of 31 December 2016. In addition,the third statement of financial position as of 1 January 2016 is presented in these financial statements as a result of the above described changes in presentation, in which the amount of RSD 8,676,882 thousand has been reclassified from Deposits and other liabilities to other customers to Deposits and other liabilities to banks, other financial institutions and Central Bank.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period.

These estimations and assumptions are based on information available, as of the date of preparation of the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and when adjustments become necessary, they are stated within the income statement for periods in which they became known.

What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the following fiscal year.

(a) Impairment of loans and receivables

The Bank assesses at each reporting date whether there is objective evidence that the value of a financial assets or group of financial assets has suffered impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(a) Impairment of loans and receivables (continued)

With regards to the assessment of impairment losses on loans, the Bank reviews the credit portfolio at least on a monthly basis for collective impairment assessment (whether the loans are in the default status or not). Individual impairment assessment is performed in accordance with the changes in assumptions for calculation of the future cash flows. These assumptions are reviewed at least quarterly.

In the process of determining whether an impairment loss needs to be accounted for within the income statement, the Bank assesses whether there is reliable evidence showing a measurable decrease in the estimated future cash flows from the credit portfolio before the impairment, which can be identified within individual loans comprised in the portfolio. The Bank makes assessment based on its experience with losses incurred on loans from prior periods for all assets susceptible to credit risk and showing evidence of impairment similar to the one that existed in the credit portfolio at the time of planning future cash flows. The methodology and assumptions used in the assessment of amounts and time of future cash flows are subject to regular reviews with the aim to decrease differences between the estimated and actually incurred losses.

The Bank reviews its loan portfolio in respect of possible impairment (impairment) at least on a quarterly basis. In order to determine whether any impairment loss should be recognised in the income statement, the Bank assesses whether there is any evidence that would indicate any measurable impairment of the estimated expected cash flows associated with the loan portfolio. Methodology and assumptions are regularly reviewed (based on which the estimated amounts of cash flows are determined and their estimated period). Impairment losses on individually significant receivables are based on estimates of discounted future cash flows of individual receivables, taking into account the repayment and realisation of any property held as collateral on the basis of such receivables. If the present value of the estimated cash flows for portfolio loans and receivables deemed impaired, changes of +/- 10%, the estimated value of loans and receivables would either be reduced by RSD 193,503 thousand or increase RSD 170,350 thousand respectively. This estimate was made for a portfolio of impaired individually significant loans and receivables on the basis of future cash flows based on repayment and collection from collateral.

(b) Determining the Fair Value of Financial Instruments

The fair value of financial instruments traded on an active market at the reporting date are based on the quoted market bid and ask prices, before the decrease by transaction costs. The fair value of financial instruments which are not listed on an active market are determined using adequate measurement techniques including techniques of net present value, comparison with similar instruments for which there are market prices and other relevant models.

When market inputs are unavailable, these are determined through assessments that include a certain degree of judgments in the fair value assessment. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the date of measuring. Hence, measurement techniques are revised periodically so they would best reflect current market terms.

Detailed disclosure is found in Note 33.4 (sensitivity limits) and 33.10 (fair valuation and levels).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

4. INTEREST INCOME AND EXPENSES

In RSD '000

	2017	2016
Interest income		
– Banks	144,619	151,063
– Public companies	86,792	157,489
– Corporate customers	2,178,964	2,144,276
– Entrepreneurs	65,329	54,107
– Public sector	1,591,075	1,383,613
– Retail customers	3,352,212	3,054,142
– Non-residents	35,131	25,817
– Agricultural producers	19,790	26,597
– Other customers	25,025	52,863
Total	**7,498,937**	**7,049,967**
Interest expense		
– Banks	264,395	274,820
– Public companies	29,432	10,039
– Corporate customers	74,108	120,939
– Entrepreneurs	1,880	2,281
– Public sector	162,678	110,244
– Retail customers	131,341	221,151
– Non-residents	390,589	386,929
– Other customers	226,546	100,797
Total	**1,280,969**	**1,227,200**
Net Interest Income	**6,217,968**	**5,822,767**

4. INTEREST INCOME AND EXPENSES (continued)

Interest income and expenses per classes of financial instruments are presented below:

		In RSD '000
	2017	**2016**
Interest income		
Cash funds held at Central Bank	116,253	109,311
Securities held to maturity	742,723	755,984
Securities available for sale	484,189	333,918
Securities held for trading	289,977	248,708
Placements and advances to clients	5,293,973	5,148,623
Placements and advances to credit institutions	24,260	9,576
Interest-bearing swap	26,952	11,584
Other interest income	520,610	432,262
Total	**7,498,937**	**7,049,967**
Interest expense		
Subordinated liabilities	59,197	68,529
Bank deposits	320,003	328,517
Customer deposits	744,061	719,722
Securities available for sale	40,089	24,566
Securities held to maturity	96,613	74,131
Interest-bearing swap	20,805	9,945
Other interest liabilities	201	1,792
Total	**1,280,969**	**1,227,200**
Net interest income	**6,217,968**	**5,822,767**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

5. FEE AND COMMISSION INCOME AND EXPENSES

In RSD '000

	2017	2016
Fee and commission income		
Domestic and foreign payment transaction services	1,304,418	1,206,074
Loans operations	3,805	78,429
Deposits operation	721,928	619,836
Payment cards operations	51,440	53,945
Guarantees and other warranties	135,558	123,984
Other fees and commissions	41,812	60,885
Total	**2,258,961**	**2,143,153**
Fee and commission expenses		
Domestic and foreign payment transaction services	501,746	433,193
Other fees and commissions	269,258	251,939
Total	**771,004**	**685,132**
Net fee and commissions income	**1,487,957**	**1,458,021**

6. NET INCOME FROM FINANCIAL ASSETS HELD FOR TRADING

In RSD '000

	2017	2016
Income of financial assets held for trading		
Gains on sales of securities and other financial assets	95,519	77,744
Income from change in fair value of securities and other financial assets	161,649	198,002
Income from changes in value of derivatives	491,972	302,740
Total	**749,140**	**578,486**
Expenses of financial assets held for trading		
Losses on sale of securities and other financial assets	927	4,425
Expenses from change in fair value of securities and other financial assets	139,407	186,597
Expenses from changes in value of derivatives	327,502	188,507
Total	**467,836**	**379,529**
Net income from financial assets held for trading	**281,304**	**198,957**

7. NET GAINS FROM HEDGING

In RSD '000

	2017	2016
Gains from hedging		
Gains from changes in value of placements and receivables	2,715	2,137
Total	**2,715**	**2,137**
Losses from hedging		
Losses from changes in value of placements and receivable	648	899
Total	**648**	**899**
Net gains from hedging	**2,067**	**1,238**

Net gains from hedging are the result of changes in value of placements that are contracted to follow the growth of retail prices.

8. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

In RSD '000

	2017	2016
Positive foreign exchange difference	9,278,602	4,905,600
Negative foreign exchange difference	(6,102,950)	(5,557,615)
Positive currency clause effects	935,716	1,765,045
Negative currency clause effects	(3,886,308)	(909,993)
Net Income of Foreign Exchange and currency clause effects	**225,060**	**203,037**

9. OTHER OPERATING INCOME

	2017	In RSD '000 2016
Other operating income	44,013	70,204
Reversal of unused provision for liabilities	2,736	19,159
Reversal of unused other provision	1,279	48,475
Income from sale of properties	23,936	17,352
Income from sale of equipment – cars	21,424	-
Income from sale of problematic receivables	83,532	64,241
Income from properties held for sale	20,663	-
Other income	39,910	38,533
Gains from changes in the value of financial liabilities	-	717
Total	**237,493**	**258,681**

10. NET GAINS/(LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS

	2017	In RSD '000 2016
Gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items		
Reversal of indirect write-offs of balance sheet items	7,413,620	9,897,186
Reversal of provisions for off-balance sheet items	2,430,790	2,824,067
Total	**9,844,410**	**12,721,253**
Losses from the impairment of financial assets and credit risk-weighted off-balance sheet items		
Losses from indirect write-offs of balance sheet items	7,332,124	10,458,217
Provisions for off-balance sheet items	2,485,813	2,893,367
Total	**9,817,937**	**13,351,584**
Net gains/(losses) from the impairment of financial assets and credit risk-weighted off-balance sheet items	**26,473**	**(630,331)**

10. NET GAINS/(LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS (continued)

10. a Net gains/losses from impairment of financial assets and credit risk-weighted off-balance sheet items

In RSD '000

	2017	2016
Losses from the impairment of financial assets and credit risk-weighted off-balance sheet items		
Losses from indirect-write-offs of balance sheet items:		
– Receivables from fin. assets held to maturity (Note 18)	(45,434)	-
– Receivables from fin. assets held for sale (Note 17)	(4)	-
– Loans and receivables to banks and other financial institutions (Note 19 (b))	(6,539)	(4,982)
– Loans and receivables to customers (Note 20)	(2,408,295)	(3,403,771)
– Other assets (Note 23)	(80,695)	(42,638)
	(2,495,529)	**(3,451,391)**
Provisions for off-balance sheet items impairment (Note 28)	(2,485,813)	(2,893,367)
Total losses from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(4,981,342)**	**(6,344,758)**
Gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items		
Gain from reversal of indirect write-offs of:		
- Receivables from financial assets available for sale (Note 17)	924	288
- Loans and receivables due from banks and other financial organisations (Note 19 (b))	5,853	9,182
- Loans and receivables due from customers (Note 20)	2,587,260	2,849,028
- Other assets (Note 23)	28,428	32,972
	2,622,465	**2,891,470**
Reversal of provisions for off-balance sheet items (Note 28)	2,430,790	2,824,067
Total gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items	**5,053,255**	**5,715,537**
Net gains/(losses) from the impairment of financial assets and credit risk-weighted off-balance sheet items	**71.913**	**(629,221)**

11. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

In RSD '000

	2017	2016
Net salaries and benefits	1,213,079	1,145,603
Payroll taxes and contributions charged to the employee	460,751	435,455
Retirement benefits, jubilee awards, bonuses and annual leave	229,426	209,047
Other staff costs	29,004	12,455
Total	**1,932,260**	**1,802,560**

12. DEPRECIATION COSTS

		In RSD '000
	2017	2016
Depreciation expense:		
– Tangible assets (Note 22)	164,104	105,401
– Intangible assets (Note 22)	125,988	157,877
Total	**290,092**	**263,278**

13. OTHER EXPENSES

		In RSD '000
	2017	2016
Professional services	1,171,699	976,974
Donations and sponsorships	29,290	40,268
Marketing and advertising	259,479	240,409
Telecommunication services and postage	55,051	61,793
Insurance premiums	425,939	358,522
Rental cost	347,423	402,743
Cost of materials	132,127	109,776
Taxes and contributions payable	110,212	85,287
Maintenance of fixed assets and software	369,289	267,554
Losses on sale and disposal of fixed and intangible assets	9,077	723
Payroll contributions payable by the employer	276,047	261,154
Per diems and travel expenses	76,428	84,199
Training and counselling	44,122	32,655
Other expenses	113,568	167,162
Total	**3,419,750**	**3,089,221**

14. INCOME TAXES

(a) Components of Income Taxes

Total tax expense is comprised of:

In RSD '000

	2017	2016
Current income tax expense	(160,965)	(2,205)
Losses on decrease of deferred tax assets and created deferred tax liabilities	(43,015)	(90,186)
Total	**(203,980)**	**(92,391)**

(b) Reconciliation of the Tax Expense Recognized in the Income Statement and Profit Before Tax Multiplied by the Statutory Income Tax Rate

	2017	2016
Profit before tax	**2,836,220**	**2,157,311**
Income tax at the rate of 15%	**425,433**	**323,597**
Tax effects of expenses not recognized for the tax purposes	50,770	19,340
Utilized tax credit for investments in fixed assets	(30,821)	(1,086)
Recognised deferred tax on losses from previous years	-	(136,213)
Tax effects of non-taxable income (interest on securities issued by the Republic of Serbia, Autonomous Province, local self-government or NBS)	(241,841)	(203,433)
Other	439	(90,186)
Total tax expense stated in the income statement	**203,980**	**92,391**
Effective interest rate	**7.19%**	**4.28%**

14. INCOME TAXES (continued)

(c) Deferred Tax Components

In RSD '000

	31.12.2017	
	Temporary difference amount	Deferred tax amount
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	53,829	8,074
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(448,441)	(67,266)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	-	-
Deductible temporary difference based on provisions for litigations-deferred tax assets	175,183	26,277
Deductible temporary difference based on provisions for jubilee awards-deferred tax assets	108,938	16,341
Deductible temporary difference based on retirement provisions deferred tax assets	75,507	11,326
Balance as at December 31, 2017	**(34,984)**	**(5,248)**

In RSD '000

	31.12.2016	
	Temporary difference amount	Deferred tax amount
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	68,889	10,333
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(303,403)	(45,510)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	280,872	42,131
Deductible temporary difference based on provisions for litigations-deferred tax assets	164,287	24,643
Deductible temporary difference based on provisions for jubilee awards-deferred tax assets	102,977	15,447
Deductible temporary difference based on retirement provisions deferred tax assets	83,197	12,480
Balance as at December 31, 2016	**396,819**	**59,523**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

14. INCOME TAXES (continued)

(d) Movements on Deferred Taxes

In RSD '000

	2017	2016
Balance of deferred tax assets at January 1	59,523	161,382
Effect of temporary tax differenced credited to the income statement	(43,015)	(90,186)
Effect of temporary tax differenced credited to equity	(21,756)	(11,673)
Deferred tax assets/liabilities balance as at December 31	**(5,248)**	**59,523**

(e) The rights on transfer of unused tax credits expire in next periods

In RSD '000

	Amount at December 31, 2017	Final Year of Use	Amount at December 31, 2016
Per unused tax credit carryforward for capital expenditure	-	-	31,712
Per tax losses incurred after 01.01.2014.	-	-	280,872

15. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

In RSD '000

	31.12.2017	31.12.2016
In RSD		
Current account	8,681,382	8,276,530
Cash on hand	1,610,883	1,441,409
	10,292,265	**9,717,939**
In foreign currencies		
Cash on hand	1,188,011	1,124,746
Obligatory foreign currency reserve held with NBS	9,293,751	8,403,985
	10,481,762	**9,528,731**
Balance as of December, 31	**20,774,027**	**19,246,670**

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

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 3/11, 31/12, 57/12, 78/12, 87/12, 107/12, 62/13, 125/14, 135/14, 4/2015, 78/2015 and 102/2015). Pursuant to the previously mentioned Decision, the obligatory reserve is to be calculated at the rate of 5% on the average balance of RSD liabilities maturing within 2 years, and at the rate of 0% on the portion of the RSD liabilities with maturities of over 2 years during a calendar month.

The Bank is under obligation to calculate and maintain the average daily balance of the allocated obligatory RSD reserve on its gyro account over the accounting period.

The obligatory RSD reserve balance that had to be maintained from December 18, 2017 to January 17, 2018 amounted to RSD 7,002,670 thousand.

The average rate of interest on the funds of the obligatory RSD reserve in 2017 equalled 1.75% per annum.

The obligatory foreign currency reserve represents the minimum foreign currency reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 3/11, 31/12, 57/12, 78/12, 87/12, 107/12, 62/13, 125/14, 135/14, 4/2015, 78/2015 and 102/2015), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates: 20% on the average daily balance of foreign currency liabilities maturing within 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause maturing within 2 years; 13% on the average daily balance of foreign currency liabilities with maturities of over 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause with maturities of over 2 years during a calendar month.

The obligatory foreign currency reserve balance that had to be maintained from December 18, 2017 to January 17, 2018 amounted to EUR 78,446 thousand.

The National Bank of Serbia does not pay interest on the amount of the average balance of the allocated foreign currency reserve.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING

		In RSD '000
In RSD	**31.12.2017**	**31.12.2016**
Financial assets at fair value through profit and loss		
– Treasury bills	-	196.192
– bonds	4,623,991	3.669.730
– positive fair value of derivatives held for trading	6,154	92.822
	4,630,145	**3,958,744**
In foreign currencies		
Financial assets at fair value through profit and loss		
– Treasury bills	-	1,964,904
– bonds	6,837,548	7,065,377
– positive fair value of derivatives held for trading	71,771	59,332
	6,909,319	**9,089,613**
Balance at December 31	**11,539,464**	**13,048,357**

17. FINANCIAL ASSETS AVAILABLE FOR SALE

In RSD '000

	31.12.2017	31.12.2016
In RSD		
Securities available for sale		
– Treasury bills	-	237,537
– bonds	5,483,554	2,015,011
– equity investments	28,804	136,084
	5,512,358	**2,388,632**
In foreign currencies		
Securities available for sale		
– Treasury bills	6,804,487	4,879,783
– other securities available for sale	171,755	34,943
	6,976,242	**4,914,726**
Total financial assets available for sale	**12,488,600**	**7,303,358**
Less impairment	(7)	(120,656)
Balance at December 31	**12,488,593**	**7,182,702**

Movements on allowance for impairment during the year were as follows:

In RSD '000

	31.12.2017	31.12.2016
Balance at beginning of year	120,656	119,448
New allowance for impairment	4	-
Reversal of allowance for impairment	(924)	(288)
Direct write-offs	(57,289)	-
Adjusting AfS to fair value	(65,965)	-
Foreign exchange difference	3,525	1,496
Balance at December 31	**7**	**120,656**

18. FINANCIAL ASSETS HELD TO MATURITY

In RSD '000

	31.12.2017	31.12.2016
In RSD		
Securities held to maturity:		
– bonds	7,861,382	8,635,103
Balance at December 31	**7,861,382**	**8,635,103**
In foreign currency		
Securities held to maturity:		
– bonds	468,487	-
Balance at December 31	**468,487**	**-**
Total securities held to maturity	**8,329,869**	**8,635,103**
Less impairment	(45,417)	-
Balance at December 31	**8,284,452**	**8,635,103**

18. FINANCIAL ASSETS HELD TO MATURITY (continued)

Movements on allowance for impairment during the year were as follows:

		U RSD '000
	31.12.2017	31.12.2016
Balance at beginning of year	-	-
New allowance for impairment	45,434	-
Reversal of allowance for impairment	-	-
Foreign exchange difference	(17)	-
Balance at 31. December	**45,417**	**-**

19. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

In RSD '000

	31.12.2017			31.12.2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Loans	-	7,236	**7,236**	25,128	383	**25,168**
Deposits	-	-	**-**	8,008	-	**8,008**
	-	**7,236**	**7,236**	**33,136**	**383**	**33,519**
In foreign currency						
Foreign currency accounts	1,151,0448	-	**1,151,048**	458,769	-	**458,769**
Loans	13,897	322,478	**336,375**	78,566	209,531	**288,097**
Deposits placed	709,981	-	**709,981**	427,587	-	**427,587**
Other placements	18,600	-	**18,600**	14,428	-	**14,428**
	1,893,526	**322,478**	**2,216,004**	**979,350**	**209,531**	**1,188,881**
Gross loans and receivables	**1,893,526**	**329,714**	**2,223,240**	**1,012,486**	**209,914**	**1,222,400**
Less: Impairment allowance	-	-	(12,687)	-	-	(10,621)
Balance at December 31	**-**	**-**	**2,210,553**	**-**	**-**	**1,211,779**

Loans with a foreign currency clause index are presented within loans and receivables in foreign currencies.

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

(a) Breakdown per type of loan and deposit beneficiaries

In RSD '000

	31.12.2017			31.12.2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Insurance companies	-	182	**182**	-	175	**175**
Financial leasing companies	-	-	**-**	-	38	**38**
Auxiliary activities within financial services and insurance	-	6,834	**6,834**	-	71	**71**
Other crediting and financing service providers	-	58	**58**	25,128	99	**25,227**
Foreign banks	-	162	**162**	8,008	-	**8,008**
	-	**7,236**	**7,236**	**33,136**	**383**	**33,519**
In foreign currency						
Domestic banks	693,971	-	**693,971**	175,722	-	**175,722**
Financial leasing companies	11,207	154,266	**165,473**	-	208,879	**208,879**
Auxiliary activities within financial services and insurance	37,300	168,212	**205,512**	19,367	652	**20,019**
Other crediting and financing service providers	-	-	**-**	76,369	-	**76,369**
Foreign banks	1,151,048	-	**1,151,048**	707,892	-	**707,892**
	1,893,526	**322,478**	**2,216,004**	**979,350**	**209,531**	**1,188,881**
Gross loans and receivables	**1,893,526**	**329,714**	**2,223,240**	**1,012,486**	**209,914**	**1,222,400**
Less: Impairment allowance	-	-	(12,687)	-	-	(10,621)
Balance at December 31	**-**	**-**	**2,210,553**	**-**	**-**	**1,211,779**

Loans with foreign currency clause are presented within loans and receivables in foreign currencies.

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

b) Maturities of Loans and Receivables due from Banks and Other Financial Institutions

Maturities of loan and receivables due from banks and other financial institutions per outstanding maturity as of December 31, 2017 and December 31, 2016:

In RSD '000

	31.12.2017	31.12.2016
Without defined maturity	1,173,812	579,646
Under 30 days	705,184	430,680
From 1 to 3 months	-	2,160
From 3 months to 12 months	13,961	
Over a year	330,283	209,914
	2,223,240	**1,222,400**

Movements on the impairment allowance accounts during the year are presented below:

In RSD '000

	31.12.2017	31.12.2016
Balance at beginning of year	10,618	13,298
New allowances for impairment (Note 10)	6,539	4,982
Reversal of impairment allowance (Note 10)	(5,853)	(9,812)
Direct write-offs	(76,518)	-
Foreign exchange differences	77,901	1,523
Balance December 31	**12,687**	**10,621**

20. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	31.12.2017			31.12.2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Loans	2,234,464	23,109,007	**25,343,471**	1,272,819	19,233,022	**20,505,841**
Other placements	172,684	1,483	**174,167**	998,645	67,409	**1,066,054**
	2,407,148	**23,110,490**	**25,517,638**	**2,271,464**	**19,300,431**	**21,571,895**
Foreign currency						
Loans	8,345,517	73,729,282	**82,074,799**	7,246,303	67,980,895	**72,227,198**
Deposits placed	85,735	-	**85,735**	101,322	-	**101,322**
Other placements	339,585	45,454	**388,039**	171,877	524,225	**696,102**
	8,770,837	**73,777,736**	**82,548,573**	**7,519,502**	**68,505,120**	**76,024,622**
Gross loans and receivables	**11,177,985**	**96,888,226**	**108,066,211**	**9,790,966**	**87,805,551**	**97,596,517**
Less: Impairment allowance						
– Individual assessment	-	-	(1,930,488)	-	-	(3,056,826)
– Collective assessment	-	-	(1,995,670)	-	-	(3,326,118)
	-	**-**	**(3,926,158)**	**-**	**-**	**(6,382,944)**
Balance at December 31	**-**	**-**	**104,140,053**	**-**	**-**	**91,213,573**

Loans with foreign currency clause are presented within loans and receivables in foreign currencies.

20. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

(a) Overview by types of users of loans and deposits

In RSD '000

	31.12.2017			31.12.2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Holdings	-	-	**-**	-	687	**687**
Public enterprises	128,128	883	**129,011**	1,723	534	**2,257**
Other companies	1,451,028	619,205	**2,070,233**	1,292,031	708,705	**2,000,736**
Entrepreneurs	36,933	437,033	**473,966**	80,467	229,843	**310,310**
Public sector	761,418	2,517	**763,935**	675,050	-	**675,050**
Retail customers	14,159	21,875,336	**21,889,495**	97,705	18,333,333	**18,431,038**
Foreign entities	28	11,725	**11,753**	-	-	**-**
Farmers	10,697	24,605	**35,302**	30,278	7,388	**37,666**
Other customers	4,757	139,186	**143,943**	94,210	19,941	**114,151**
	2,407,148	**23,110,490**	**25,517,638**	**2,271,464**	**19,300,431**	**21,571,895**
In foreign currency						
Holdings	-	-	-	520,947	121,590	**642,537**
Public enterprises	-	2,183,335	2,183,335	4,323	2,791,685	**2,796,008**
Other companies	8,364,250	42,017,895	50,382,145	6,536,719	44,787,539	**51,324,258**
Entrepreneurs	65,785	600,776	666,561	41,952	388,782	**430,734**
Public sector	187,407	2,663,149	2,850,556	162,832	2,313,408	**2,476,240**
Retail customers	5,124	25,433,419	25,438,543	3,455	16,585,325	**16,588,780**
Foreign entities	91,955	92,689	184,644	112,326	64,099	**176,425**
Farmers	13,637	175,784	189,421	29,602	208,086	**237,688**
Other customers	42,679	610,689	653,368	107,346	1,244,606	**1,351,952**
	8,770,837	**73,777,736**	**82,548,573**	**7,519,502**	**68,505,120**	**76,024,622**
Gross loans and receivables	**11,177,985**	**96,888,226**	**108,066,211**	**9,790,966**	**87,805,551**	**97,596,517**
Less: Impairment allowance						
– Individual assessment	-	-	(1,930,488)	-	-	(3,056,826)
– Collective assessment	-	-	(1,995,670)	-	-	(3,326,118)
	-	**-**	**(3,926,158)**	**-**	**-**	**(6,382,944)**
Balance at December 31	**-**	**-**	**104,140,053**	**-**	-	91,213,573

Loans with foreign currency clause are presented within loans and receivables in foreign currencies.

20. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) Maturity of loans and receivables to customers

Maturities of loan and receivables due from customers per outstanding maturity as of December 31, 2017 and December 31 2016 are presented in the table below:

In RSD '000

	31.12.2017	31.12.2016
Without defined maturity	469,619	546,443
Under 30 days	204,101	146,436
From 1 to 3 months	749,236	744,613
From 3 to 12 months	9,755,029	8,353,474
Over a year	96,888,226	87,805,551
	108,066,211	**97,596,517**

Movements on the impairment allowance accounts during the year are presented below:

In RSD '000

	31.12.2017	31.12.2016
Balance at beginning of year	6,382,947	7,492,088
New allowances for impairment (Note 10)	2,408,295	3,403,771
Reversal of impairment allowance (Note 10)	(2,587,260)	(2,849,028)
Direct write-offs	(1,593,266)	(1,752,867)
Foreign exchange differences	(684,558)	88,980
Balance at December 31	**3,926,158**	**6,382,944**

20. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Concentration of Loans and Receivables due from Banks, Other Financial Institutions and Customers

Concentration of loans and receivables from banks and other financial organisations and clients, shown in gross amount as of December 31, 2017 and December 31, 2016, is significant for the following activities:

In RSD '000

	31.12.2017	31.12.2016
Holding companies	-	643,224
Trade	10,587,711	9,120,734
Manufacturing industry	13,816,128	15,211,321
Construction	10,341,175	10,454,285
Production and supply of el. energy	5,672,892	8,343,192
Services and tourism	12,074,663	10,682,347
Agriculture and food industry	2,272,155	2,311,381
Retail customers	47,432,489	35,083,922
Domestic and foreign banks and other financial institutions	2,223,240	1,222,057
Public sector	3,614,491	3,151,290
Non-resident corporate customers	91,946	112,663
Agricultural producers	224,723	275,354
Other customers	797,311	1,466,103
Entrepreneurs	1,140,527	741,044
	110,289,451	**98,818,917**

21. INVESTMENTS IN SUBSIDIARIES

In RSD '000

	2017	2016
In RSD	93,560	93,560
Balance at December 31	**93,560**	**93,560**

On 15 January 2014, on the basis of a purchase and transfer agreement concluded with Steiermarkische Bank und Sparkassen AG and Erste Group Immorent International Holding GmbH, and after the payment of the agreed amounts, the Bank acquired 75% of the share capital in the company S-leasing doo, Serbia. The acquisition of shares was made after the payment of 25% of the ownership of Steiermarkische Bank und Sparkassen AG and 50% of the ownership of Immorent AG.

22. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

In RSD '000

	Land and buildings	Equipment	Equipment acquired under finance lease	Investment property	Investments in progress	Total	Intangible assets
Cost							
Balance at January 1, 2016	778,087	709,357	41,108	243,633	1	1,772,182	1,116,584
Additions	-	-	-	-	287,464	287,464	-
Transfers	9,611	110,796	81,188	-	(287,466)	(85,869)	85,870
Disposal and retirement	(43,989)	(10,102)	-	-	-	(54,090)	-
Balance at December 31, 2016	743,709	810,049	122,295	243,633	(1)	1,919,686	1,202,454
Additions		3,878	(3,878)	-	527,446	527,446	
Transfers	16,322	255,193	140,326	-	(506,282)	(91,441)	94,441
Disposal and retirement	(7,385)	(73,359)	(4,570)	(243,633)		(328,947)	(9,225)
Balance at December 31, 2017	752,646	995,761	254,173	-	21,164	2,023,744	1,287,670
Accumulated depreciation/amortisation							
Balance at January 1, 2016	263,694	531,073	663	5,125	-	800,554	765,732
Depreciation (Note 12)	19,013	66,918	13,380	6,091	-	105,401	157,877
Disposal and retirement	(20,412)	(9,347)	-	-		(29,757)	-
Balance at December 31, 2016	262,295	588,644	14,043	11,216	-	876,198	923,609
Depreciation (Note 12)	18,494	101,980	42,471	1,159		164,104	125,988
Disposal and retirement	(2,201)	(68,109)	(4,561)	(12,375)		(87,246)	(9,225)
Balance at December 31, 2016	278,587	622,515	51,953	-	-	953,055	1,040,372
NET BOOK VALUE							
– December 31, 2017	474,059	373,246	202,220	-	21,164	1,070,689	247,298
– December 31, 2016	481,414	221,405	108,252	232,417	-	1,043,488	278,845

22. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (continued)

The Bank does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment on 31 December 2017 is mostly composed of computer and telecommunication equipment and office furniture. The net book value of intangible assets as of December 31, 2017 is mostly software and licenses. Based on the assessment of the Bank's management, there are no indications that the value of fixed assets and intangible assets is impaired as at 31 December 2017.

23. OTHER ASSETS

In RSD '000

	31.12.2017	31.12.2016
In RSD		
Financial assets:		
– Receivables for accrued fees and commissions	16,212	36,233
– Trade receivables	2,045	1,070
– Other receivables from standard operations	29,582	101,013
– Other receivables	197,801	109,349
Non-financial assets:		
– Advances given	2,448	15,558
– Receivables from employees	694	1,171
– Receivables from prepaid taxes and contributions	725	725
– Inventories	69,091	57,357
– Other receivables	(425)	(2,012)
– Other investments	27,006	29,169
Prepayments and accrued income:		
– Prepaid insurance premiums	542,593	314,986
– Coupon interest when buying bonds	-	42,366
– Other deferred assets	166,108	177,502
	1,053,880	**884,487**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	-	18
– Trade receivables	29,749	29,633
– Other receivables from standard operations	24	60
– Other receivables	49,202	54,057
Non-financial assets:		
– Advances given	6,129	30,952
– Receivables from employees	22	1,247
– Other receivables	2,031	53,965
Prepayments and accrued income:		
– Other deferred assets	34,552	34,576
	121,709	**204,508**
Gross other assets	**1,175,589**	**1,088,995**
Less: Impairment allowance	(115,174)	(242,410)
Balance at December 31	**1,060,415**	**846,585**

23. OTHER ASSETS (continued)

Movements on the account of impairment allowance during the year are presented in the table below:

		In RSD '000
	31.12.2017	**31.12.2016**
Balance at beginning of the year	242,410	303,747
Charge for the year	80,695	42,638
Reversal for impairment allowance	(28,428)	(32,972)
Direct write-offs	(69,703)	(67,346)
FV adjustments	(2,140)	-
Foreign exchange difference	(107,660)	(30,657)
Balance at December 31	**115,174**	**242,410**

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS HELD FOR TRADING

		In RSD '000
	31.12.2017	**31.12.2016**
In RSD		
Liabilities per derivatives held for trading	14,750	11,556
	14,750	**11,556**
In foreign currencies		
Liabilities per derivatives held for trading	29,708	43,134
	29,708	**43,134**
Balance at December 31	**44,458**	**54,690**

25. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

In RSD '000

	31.12.2017			31.12.2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	304,765	-	**304,765**	143,703	-	**143,703**
Deposits for approved loans	-	247	**247**	-	247	**247**
Specific purpose deposits	86,554	-	**86,554**	1,075	-	**1,075**
Other deposits	4,408,726	345,000	**4,753,726**	3,750,530	390,000	**4,140,530**
Total	**4,800,045**	**345,247**	**5,145,292**	**3,895,308**	**390,247**	**4,285,555**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	375,863	-	**375,863**	872,077	-	**872,077**
Deposits for approved loans	-	189,556	**189,556**	-	1,171,456	**1,171,456**
Specific purpose deposits	21,246	18,955	**40,201**	18,214	3,704	**21,918**
Other deposits	6,317,658	1,512,836	**7,830,494**	15,631,839	1,678,180	**17,310,019**
Overnight deposits	2,262,829	-	**2,262,829**	-	-	**-**
Borrowings	-	29,698,233	**29,698,233**	-	22,582,767	**22,582,767**
Other financial liabilities	27,963	-	**27,963**	78,628	-	**78,628**
Total	**9,005,599**	**31,419,588**	**40,425,139**	**16,600,758**	**25,436,107**	**42,036,865**
Balance at December 31	**13,805,604**	**31,764,827**	**45,570,431**	**20,496,066**	**25,826,354**	**46,322,420**

25. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (continued)

Breakdown of other deposits per type of customer is presented in the table below:

		In RSD '000
	31.12.2017	**31.12.2016**
Central bank	1	3
Domestic banks	6,981,815	9,309,202
Insurance companies	2,647,290	2,953,351
Pension funds	-	170,534
Finance leasing companies	2,626,698	1,785,819
Auxiliary activities within financial services and insurance	3,207,703	1,579,820
Trusts, investment and similar funds	-	14,672
Other crediting and financing service providers	2,855	8,448
Foreign banks	30,104,069	30,500,571
Balance at December 31	**45,570,431**	**46,322,420**

Deposits of foreign banks mostly relate to the deposit of Erste Group Bank AG, Austria in the amount of RSD 16,359,604 thousand and the deposit of the European Investment Bank in the amount of RSD 11,094,645 thousand.

26. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD '000

	31.12.2017			31.12.2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	17,706,708	-	**17,706,708**	14,335,266	-	**14,335,266**
Redeemable deposits	-	-	**-**	-	-	**-**
Savings deposits	532,109	542,425	**1,074,534**	648,934	483,830	**1,132,764**
Deposits placed for approved loans	237,930	189,160	**427,090**	194,079	96,928	**291,007**
Specific purpose deposits	2,829,348	18,750	**2,848,098**	2,539,874	18,750	**2,558,624**
Other deposits	6,926,343	7,359	**6,933,702**	4,715,869	8,900	**4,724,769**
Total	**28,232,438**	**757,694**	**28,990,132**	**22,434,022**	**608,408**	**23,042,430**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	34,154,483	-	**34,154,483**	23,793,190	-	**23,793,190**
Redeemable deposits	-	-	**-**	-	-	**-**
Savings deposits	8,190,424	11,953,885	**20,144,309**	8,588,238	13,053,687	**21,641,925**
Deposits placed for approved loans	103,768	2,058,284	**2,162,052**	477,827	2,253,017	**2,730,844**
Specific purpose deposits	3,259,784	314,590	**3,574,374**	767,393	344,020	**1,111,413**
Other deposits	1,082,998	124,996	**1,207,994**	533,112	25,895	**559,007**
Borrowings	-	1,291,788	**1,291,788**	-	2,100,459	**2,100,459**
Other financial liabilities	456,996	-	**456,996**	311,561	-	**311,561**
Total	**47,248,453**	**15,743,543**	**62,991,996**	**34,471,321**	**17,777,078**	**52,248,399**
Balance at December 31	**-**	**-**	**91,982,128**	**-**	**-**	**75,290,829**

26. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

Breakdown of other deposits per type of customer is presented in the table below:

In RSD '000

	31.12.2017	31.12.2016
Holding companies	-	51,308
Public companies	2,057,397	965,665
Corporate customers	26,848,840	18,855,062
Public sector	2,691,673	2,152,296
Retail customers	45,729,756	40,394,298
Non-residents	2,467,769	3,851,638
Entrepreneurs	2,195,108	1,814,183
Agricultural producers	397,437	471,626
Other customers	9,594,148	6,734,753
Balance at December 31	**91,982,128**	**75,290,829**

27. SUBORDINATED LIABILITIES

In RSD '000

	31.12.2017	31.12.2016
In foreign currencies		
Subordinated liabilities	1,354,523	1,764,606
Balance at December 31	**1,354,523**	**1,764,606**

Balance of subordinated borrowings as of December 31, 2017 and December 31, 2016 is presented in more detail in the table below:

In RSD '000

Creditor	Currency	Loan amount	Maturity	Interest rate	31.12.2017	31.12.2016
Erste Group Bank AG, Austria	EUR	15,000,000	27.12.2021.	3MEuribor+3.65 % pa	1,353,974	1,763,890
Total		**15,000,000**			**1,353,974**	**1,763,890**

Subordinated liabilities relate to a subordinated long-term loan approved to the Bank by Erste GCIB Finance, Amsterdam on December 27, 2011 in the amount of EUR 15,000,000 for a period of 10 years with a 5-year grace period and interest rate equal to 3-month EURIBOR increased by 3.65% per annum. In accordance with the Agreement, the loan principal is to be repaid in 21 equal quarterly instalment, the first of which is due upon grace period expiry.

The Bank may include subordinated liabilities in its supplementary capital (Note 33.9), after the National Bank of Serbia, on the basis of the submitted documentation and the Agreement, establishes that the conditions for granting approval to include subordinate liabilities in the supplementary capital of the Bank. The National Bank of Serbia, the Banking Supervision Department, submitted the said approval on December 6, 2011, and based on the Bank's request of October 7, 2011.

On the basis of the Transfer and Transfer Agreement on December 16, 2015, the change of the creditor was made, and the new creditor of Erste Group Bank AG, Austria. All other terms of the contract have remained unchanged.

28. PROVISIONS

In RSD '000

	31.12.2017	31.12.2016
Provisions for losses per off-balance sheet items (a)	326,073	277,482
Provisions for long-term employee benefits (b):		
– retirement benefits	75,507	83,197
– jubilee awards	108,938	102,977
Provisions for litigations (c)	175,183	164,287
Other long-term provisions	67,041	42,699
Balance at December 31	**752,742**	**670,642**

(a) According to the Bank's internal policy, provisions for commitments and other risk-weighted off balance sheet items (guarantees, acceptances, undrawn loan facilities etc.) are made when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitments.

Evidence based on which the Bank performs the individual assessment of impairment are: payments effected on the Bank's accounts with respect to commitments arising from guarantees, bills of guarantees, etc., late payments for other liabilities, and the customers has been classified in accordance with the Bank's internal classification criteria into default status category.

Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets. Commitments and other risk-weighted off-balance sheet items, for which the Bank does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, the Bank collectively assesses them for impairment, in a similar way as for balance sheet items, using the credit conversion factors for off-balance sheet items.

(b) The Bank also formed provisions for litigations involving the Bank as a defendant, where the Bank's expert team expects negative outcomes.

28. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

In RSD '000

	31.12.2017	31.12.2016
Provisions for losses per off-balance sheet exposures		
Balance at beginning of the year	277,482	205,727
Charge for the year (Note 10)	2,485,813	2,893,367
Reversal of unused provisions (Note 10)	(2,430,790)	(2,824,067)
Other movements	(6,433)	2,455
	326,072	**277,482**
Provisions for other long-term employee benefits		
Balance at beginning of the year	186,174	190,158
Interest expenses and current service costs	21,405	21,760
Benefits paid during the year	(22,323)	(29,782)
Actuarial losses/(gains) on jubilee awards	10,226	1,490
Actuarial losses/(gains) on retirement benefits	(11,038)	2,548
	184,444	**186,174**
Provisions for litigations		
Balance at beginning of the year	164,287	118,109
Charge for the year	20,209	55,839
Used provision during the year	(9,313)	(9,661)
Other movements	-	-
	175,183	**164,287**
Other long-term provisions		
Balance at beginning of the year	42,700	20,491
Charge for the year	51,971	35,084
Used provision during the year	(27,628)	(12,875)
	67,043	**42,700**
Balance at December 31	**752,742**	**670,642**

29. OTHER LIABILITIES

In RSD '000

	31.12.2017	31.12.2016
In RSD		
Non-financial liabilities:		
Trade payables	547	-
Advances received	4,105	3,590
Liabilities for taxes, contributions and other duties payable	74,083	1,017
Accrued expenses and deferred revenue:		
– accrued liabilities for unused annual leaves	21,078	13,952
– other accruals	15,936	15,483
– accrued liabilities for MBU processing	13,753	1,085
– accrued expenses	117,044	47,338
– other accruals	366,291	283,791
Liabilities to retailers for POS terminals	51,748	13,941
Liabilities for termination of RSD accounts	21,685	18,113
Obligations from forcibly sold shares synergy - natural persons	24,414	25,514
Other liabilities	173,177	16,259
	883,861	**440,084**
In foreign currencies		
Financial liabilities:		
Liabilities for unpaid amounts for leased fixed assets	163,819	89,362
Non-financial liabilities:		
Commitments and Fees	60	25
Liabilities towards suppliers	5,734	6,439
Advances received	10,634	15,414
Accrued expenses and deferred revenue:		
– other accruals	36,485	47,065
Other liabilities for nostro payments - retail	27,937	71,780
Other liabilities	27,417	14,033
	272,086	**244,118**
Balance at December 31	**1,155,947**	**684,202**

30. EQUITY

(a) Structure of the Bank's Equity

The total equity structure of the Bank is presented below:

In RSD '000

	31.12.2017	31.12.2016
Share capital - ordinary shares /i/	10,040,000	10,040,000
Share premium /ii/	124,475	124,475
Reserves from profit /iii/	7,679,824	5,614,904
Revaluation reserves /iv/	418,024	283,703
Profit for the year	2,632,240	2,064,920
Balance at December 31	**20,894,563**	**18,128,002**

30. EQUITY (continued)

(a) Structure of the Bank's Equity (continued)

/i/ *Share Capital*

As of December 31, 2017 the Bank's subscribed and paid in capital comprised of 1,004,000 ordinary shares with the par value of RSD 10,000 per share (December 31, 2016: 1,004,000 ordinary shares with the par value of RSD 10,000 per share). During 2017 and 2016, there were no changes in the share capital.

The major shareholder of the Bank is Erste Group, Vienna, with a shareholding of 74% at December 31, 2017. the shareholder structure of the Bank as of December 31, 2017 is presented below:

Shareholder	Share count	In %
EGB CEPS HOLDING GMBH	742,960	74.00
Steiermärkische Bank und Sparkassen AG, Gratz	261,040	26.00
Total	**1,004,000**	**100.00**

/ii/ *Share Premium*

Share premium amounting to RSD 124,475 thousand as at December 31, 2017 and 2016 resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ *Reserves from Profit and Other Reserves*

Profit reserves formed as at 31 December 2017 amount to RSD 7,679,825 thousand. As at 31 December 2016, reserves from profit amounted to RSD 5,614,904 thousand. Pursuant to the Decision of the Shareholders Assembly of the Bank of March 31, 2017, the other reserves of the Bank are allocated profit from 2016 in the amount of RSD 2.064.920 thousand.

/iv/ *Revaluation Reserves*

Revaluation reserves, which at 31 December 2017 amounted to RSD 418.023 thousand (December 31, 2016: RSD 283,703 thousand), were formed as a result of the decrease in the value of investments in securities available for sale at market value, adjusted for effects of deferred taxes based on the revaluation of these securities and the adjustment of liabilities based on actuarial calculation in accordance with IAS 19.

31. OFF-BALANCE SHEET ITEMS

Within the other off-balance sheet positions Bank records mortgages, securities from custody operations, unwinding interest.

		In RSD ’000
	31.12.2017	31.12.2016
Operations on behalf of third parties (a)	640,935	696,990
Guarantees and other irrevocable commitments (b)	37,230,852	22,006,926
Other off-balance sheet positions (c)	215,361,570	165,248,404
Balance at December 31	**253,233,357**	**187,952,320**

31. OFF-BALANCE SHEET ITEMS (continued)

(a) Operations on behalf of third parties (a)

In RSD '000

Investments on behalf of third parties	31.12.2017	31.12.2016
In RSD		
– short-term	14,006	13,674
– long-term	626,929	683,316
Balance at December 31	**640,935**	**696,990**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 8,106 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 615,923 thousand and long-term loans to agricultural producers in the amount of RSD 10,885 thousand.

(b) Guarantees and other irrevocable commitments

In RSD '000

	31.12.2017	31.12.2016
In RSD		
Payment guarantees	1,046,722	40,457
Performance guarantees	4,780,880	3,810,201
Sureties and acceptances	-	872
Irrevocable commitments for undrawn loan facilities	5,567,655	2,914,003
Other off-balance sheet items	653,801	270,741
	12,049,058	**7,036,274**
In foreign currency		
Payment guarantees	1,511,097	457,393
Performance guarantees	4,869,481	3,835,280
Irrevocable commitments for undrawn loan facilities	17,010,434	10,570,648
Letter of credit	187,855	53,779
Other off-balance sheet items	1,602,927	53,552
	25,181,794	**14,970,652**
Balance at December 31	**37,230,852**	**22,006,926**

Irrevocable commitments relate to the undrawn loans approved that cannot be unilaterally cancelled such as: current account overdrafts approved, corporate loans, multi-purpose framework loans and other irrevocable commitments.

Irrevocable commitments usually have fixed expiry dates or other provisions related to expiry. Since irrevocable commitments may expire before loans are drawn by customers, the total amount agreed upon does not represent definite future cash outflows.

The Bank monitors maturity periods of irrevocable credit commitments and undrawn loan facilities because long term commitments bear a greater degree of credit risk than short-term commitments.

As at December 31, 2017, the Bank's provisions for guarantees and other irrevocable commitments amounted to RSD 326,072 thousand (December 31, 2016: RSD 277,482 thousand).

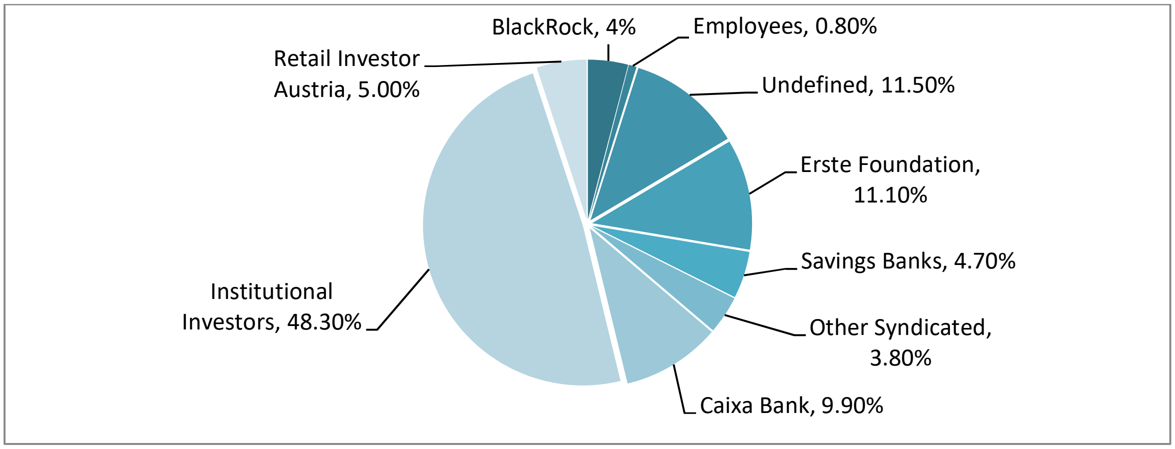
32. RELATED PARTY DISCLOSURES

As part of regular operations, the Bank realises business transactions with its shareholders and other related parties.

Parties are deemed to be linked if they are jointly controlled, or one person has control over another or may have significant influence over that other entity in making financial and operational decisions

The Bank's shareholders are Erste Group Bank AG Vienna and Steiermärkische Bank und Sparkassen AG, Gratz.

Shareholder structure of Erste Group is as follows:



Long-term maturity loans up to 5 years were taken at the rate of 6MEURIBOR + 1.86% or LIBOR + 1.8%, while the subordinated loan was taken at a rate of 3MEURIBOR + 3.65% for 10 years.

Interbank transactions (overnight and short-term borrowings) are made at prices ranging from -0.29 to 11% depending on the currency in which the business is performed.

Guarantee fees with related parties range from 0.98 to 1.16%.

Other transactions in the money market (swap transactions, forward transactions, sale of cash), as well as those transactions for which the fee is charged, are also performed at market conditions and prices non-arm's length.

The interest rate on deposits and other liabilities towards banks and customers ranges from 0.15% to 9.2%.

32. RELATED PARTY DISCLOSURES (continued)

Balance at 31 December 2017 and December 31, 2016, as well as income and expenses during the year, arising from transactions with legal entities within the Erste Group, are presented in the following tables:

	2017		2016	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Assets				
Financial assets at fair value through profit and loss held for trading	12,842	-	74,982	-
Loans and receivables from banks and other financial organisations	1,099,550	12,846	448,389	255,167
Loans and receivables due from customers	-	153	-	288
Investments in subsidiaries	-	93,560	-	93,560
Other assets	4,663	30,833	18,967	28,013
	1,117,055	**137,392**	**542,338**	**377,028**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	40,956	-	49,915	-
Deposits and other liabilities due to banks and other financial organizations	16,359,513	143,282	19,117,029	794,664
Deposits and liabilities due to customers	-	51,913	-	111,903
Subordinated liabilities	1,354,523	-	1,764,605	-
Provisions	191	149	205	314
Other liabilities	1,632	199,218	22,265	121,396
	17,756,814	**394,561**	**20,954,020**	**1,028,278**
Off-balance sheet items				
Guarantees and other sureties issues	1,038,214	227,487	262,701	544,510
Irrevocable commitments	-	2,904	196,904	2,848
Other off-balance sheet items	10,323,119	653,012	15,399,712	-
	11,361,333	**883,403**	**15,859,317**	**547,358**

32. RELATED PARTY DISCLOSURES (continued)

In RSD '000

	2017		2016	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	16,154	2,490	12,000	1,689
Interest expenses	(287,057)	(4,947)	(277,586)	(1,977)
Fee and commission income	44,456	15,446	75,139	1,961
Fee and commission expenses	(201,716)	-	(164,454)	-
Net gains on financial assets held for trading	27,645	-	87,505	-
Net gains on foreign exchange difference and currency clause effects	-	1,737	-	1,461
Net loss on foreign exchange difference and currency clause effects	(15,488)	-	(48,236)	-
Net gains on reduction of impairment of financial assets and credit risky off-balance items	359	-	1,162	-
Net losses on reduction of impairment of financial assets and credit risky off-balance items	-	(9,882)	-	(1,983)
Other operating income	5,932	31,864	10,450	29,634
Other expenses	(129,739)	(637,775)	(132,668)	(517,395)

Fees on cross-border loans in 2017 amounted to RSD 3,383 thousand (2016: RSD 28,593 thousand).

Through cross-border loans the Bank gives the customers opportunity to borrow directly from abroad, while all the activities in the approval process and administration of loans are performed by the Bank. Such services provide the customers more favourable terms of borrowings while the Bank earns fee income on related services. Bank acts strictly as agent in cross-border loan deals and does not bear any credit risk.

(a) As of December 31, 2017 and December 31, 2016, loans due from related parties were not impaired.

32. RELATED PARTY DISCLOSURES (Continued)

(b) In its regular course of operations, the Bank enters into business relationships and arrangements with the members of the Executive Board, other key personnel and persons related to them. Balances at the end of the year and effects of those transactions are presented as follows.

In RSD '000

	Balance at December 31, 2017	Income/ (expenses) 2017	Balance at December 31, 2016	Income/ (expenses) 2016
Current account overdrafts, credit cards and consumer loans	2,535	165	950	141
Housing loans	70,159	3,476	40,711	2,796
Accrued fees	(83)	-	-	-
Other loans and receivables	70	51	69	163
Total impairment allowances	(150)	389	(330)	(89)
Deposits	57,844	(409)	54,045	(318)
Other liabilities	701	(3,028)	57	(385)
Unused credit limit	857	-	324	324

(c) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2017 and 2016, are presented in the table below:

In RSD '000

	2017	2016
Salaries and benefits of the Management Board members	5,818	5,957
Salaries and benefits of the Executive Board members	113,788	100,096
Accrued income of the Executive Board members	67,041	42,670
Total	**186,647**	**148,723**

33. RISK MANAGEMENT

33.1. Introduction

The Bank manages risks inherent in banking operations through the processes of ongoing risk identification, measurement and monitoring, restriction and risk limit definition and application of other controls.

Due to the nature of its activities, the Bank is exposed to the following major risks: credit risk, liquidity risk and market risk (which includes price risk, foreign exchange risk). The Bank is also exposed to operating risk and concentration risk, which particularly entails the risk of Bank's exposure to a single entity or a group of related entities, interest rate risk, risk of Bank's investments in other entities and own fixed assets, counterparty country risk and other risks the Bank monitors on an ongoing basis.

The Bank's risk management is a comprehensive process that includes identification, assessment, rating and control of all types of business risks (credit, interest rate, foreign exchange and other market risks, investment and operational risks). The aim of the risk management process is to establish an adequate system for identifying, measuring, assessing and monitoring the risks the Bank is exposed to in its business operations, as well as an adequate response in order to minimize potential adverse effects to the Bank's capital and financial performance.

The Bank has adopted policies and procedures that provide control and application of internal by- laws of the Bank related to risk management, as well as procedures related to the Bank's regular reporting on the risk management. The processes of risk management are critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities. This system of risk management provides timely notification of the management of all risks that are present or may occur, and provides adequate and timely response in case those risks occur.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Management Board and the Executive Board are ultimately responsible for identifying and controlling risks while the operational responsibility is delegated to the Risk Management Division. In addition, the Bank has established separate independent bodies for managing and monitoring risks.

Key roles in the risk management within the Bank belong to the following units/bodies:

Management Board and Executive Board

The Management Board and Executive Board are responsible for the overall risk management approach and for approving the risk management strategies and principles. Their decisions are made based on the proposals of the Credit Risk Management Division and Strategic Risk Management Department, Assets and Liabilities Management Committee and other relevant organizational units of the Bank.

Assets and Liabilities Management Committee (ALCO)

Assets and Liabilities Management Committee (ALCO) has the overall responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALCO is responsible for fundamental findings in respect of risks and for managing and monitoring of relevant decisions related to risk, principally for liquidity, interest rate, foreign exchange and other market risks.

ALCO has and advisory role and its decisions are sent in the form of proposals for approval to the Executive Board.

33. RISK MANAGEMENT (continued)

33.1. Introduction (continued)

Non-financial Risk Management Committee

The Role of non-financial risk management committee is to discuss, suggest decision and validate questions from Bank's operational risk areas, with the application of Decision on the basis of expected profit of exposure to risk as well as implementation of corrective measures and activities of risk migration to manage non-financial risks proactively (operational risk, reputation risk, compliance risk, legal risk, information security risk).

Asset and Liability Management Unit

Asset and Liability Management Unit is organized as an independent organizational unit that is directly responsible to the Executive Board of the Bank. In addition, it is primarily responsible for funding and liquidity of the Bank. Asset and Liability Management Unit prepares reports related to assets and liabilities management for the purposes of the Bank's units as well as a report for the Asset and Liability Management Committee.

Internal Audit

Internal Audit is established with the aim to ensure that the Bank's operations take place in accordance with the standards providing the function of an independent, objective assurance and advisory activities based on best banking practices. Through systematic and disciplined approach, the Internal Audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control and managerial processes.

The Bank's Internal Audit continuously supervises the process of risk management within the Bank through check-up of adequacy of procedures, control mechanisms in place and compliance of the Bank with the adopted procedures. The Internal Audit reviews results of its work with the Bank's management and reports to the Audit Committee and Management Board on the findings identified and recommendations given.

Risk management and reporting

In accordance with the Law on Banks, Erste Bank a.d. Novi Sad (the "Bank") has established an internal organization that defines the organizational units competent and responsible for risk management, the objective of the risk management system is to identify and quantify the risks the bank is exposed to in performance of its business activities.

The functions of risk monitoring and risk management are the responsibility of the Credit Risk Management Division and Strategic Risk Management Unit, as separate organizational units within the Bank. Risk management policies and strategy as well as capital management strategy are linked to the Bank's overall strategy and include definition of all risk types, manners of managing those risks and the level of risk the Bank is willing to accept in order to achieve is business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia ("NBS").

33. RISK MANAGEMENT (continued)

33.1. Introduction (continued)

Risk management and reporting (continued)

The responsibilities of the Credit Risk Management Division and Strategic Risk Management Unit include the following:

- Identification and measurement or assessment of the Bank's exposure to certain types of risks;
- Risk monitoring, including monitoring and control, analysis and reporting on the individual risk levels, their causes and consequences;
- Measurement and evaluation as well as management of the Bank's risk profile and capital adequacy;
- Monitoring of parameters that affect the Bank's risk exposure position, primarily by including management and optimization of the quality of assets and cost of risks;
- Development and application of quantitative risk management models as elements in the process of advanced business decision making and risk pricing;
- Development of strategies and proposed Bank's exposure limits per risk types and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Bank's financial position;
- Assessing risks of new product introduction and activity outsourcing;
- Development of methodologies, procedures and policies for risk management in accordance with relevant legislation, standards of Erste Group, good business practice and special needs of the Bank;
- Development and implementation of various technical platforms and tools.

Given the diversity of the areas covered, in order to efficiently perform its roles, the risk management function is divided between the Strategic Risk Management Unit and Credit Risk Management Division, which consists of the following organizational units:

- Corporate Risk Management Department;
- Retail Risk Management Department;
- Risky and disputable placements Management Department.

Information gathered from all business activities are examined and processed in order to identify, analyse and control the risks the Bank is or may be exposed to.

The Bank and its operations are particularly exposed to: credit risk, concentration risk, market risk, liquidity risk, and operational risk. The obtained information is presented and explained to the Management Board, Executive Board, ALCO and the heads of all business units. Reports are sent to the competent authorities on a daily, weekly, monthly and quarterly base and at their request.

A comprehensive report on risks that includes all the information necessary for the assessment and conclusion on the risks the Bank is exposed to is submitted to the Management Board on a quarterly basis.

33. RISK MANAGEMENT (Continued)

33.2. Credit Risk

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

The Bank's credit risk depends on the creditworthiness of tis borrowers, their regularity and timeliness in liability settlement and quality of collaterals securitizing the Bank's loans and receivables. Credit risk identified, measured, assessed and monitored in accordance with the Bank's internal by-laws on credit risk management and relevant decisions governing the classification of the Bank's balance sheet assets and off-balance sheet items and capital adequacy.

The Bank's business policy requires and stipulates maximum protection of the Bank against credit risk exposure and the most significant of all banking risks.

The Bank controls and manages credit risk by establishing rigorous process for determining minimum credit capacity of the debtor in the process of loan approval as well as by regular monitoring over the entire contractual relationship duration, by defining different levels of decision making upon loan approval (reflecting the knowledge and experience of the employees) and by setting up limits to determine the risk level it is willing to accept at the level of individual borrowers, geographic regions and industries, and by monitoring such risk exposures accordingly.

By its internal by-laws, policies and procedures, which are regularly updated, at least on a yearly basis, the Bank has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

The Bank's Risk Management Strategy, crediting policies and credit risk management policies and procedures define the process of credit risk management at the individual loan level, and at the loan portfolio level, i.e., identification, measurement and monitoring (control) of loans, particularly those with high-risk levels.

The process of loan quality monitoring enables the Bank to estimate potential losses arising from the risks the Bank is exposed to and to take remedial measures.

Approval of loan products is based on credit quality of customer, type of credit product, collateral, supplementary conditions system and other factors on credit risk mitigation.

Assessment of risk of default of counterparty to the Bank is based on probability of client getting in default status. For every exposure to credit risk, the Bank assigns internal rating which represents unique risk measurement of counterparties' default. Internal rating of every client is updated on at least on yearly basis. On quantitative level, internal ratings effect on demanded price of risk, thus on forming provision for those credit risks. Internal ratings take in consideration all available information needed to assess risk of client getting in default. For clients from corporate sector, internal ratings take in consideration financial power of client (indicators of profitability, adequacy of maturity structure of certain elements of assets, liabilities and equity, adequacy of cash flow, level of indebtedness, exposure to credit-currency risk, branch of economy, position on the market, specific characteristics of client and other relevant indicators. For retail sector and micro clients, internal ratings are usually based on behaviours and applicative scoring, as well as demographic and financial information. Ratings limitations are applied considering membership of economically related parties and country of main business activity.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The Bank complies with all standards of Erste Group AG from perspective of development of model of internal ratings and maintaining processes. All new models and modifications of already existing models in Bank (rating models and risk parameters) as well as methodological standards are examined by group commission, known as Holding Model Committee (HMC), which secures integrity across Group as well as consistency of model and methodology. Models are approved as well by local management. Internal ratings system is in compliance with Erste Group AG system which makes a difference between „performing" and „non-performing" clients. For „performing" clients (clients that are not in default status) the Bank uses scale of 8 grades (A1/A2/B1/B2/C1/C2/D1/D2), for clients from retail sector, respectively scale of 13 grades (1/2/3/4a/4b/4c/5a/5b/5c/6a/6b/7/8) for all other categories. For clients that are in default status the Bank uses scale of 5 grades (R1-R5). For reporting purposes, internal ratings are grouped in next 4 categories of risk:

Low risk – Clients with good, longer cooperation with Bank, as well as big international clients. Strong financial position without expected financial difficulties in the future. Clients from retail sector which have long history for cooperation with bank or clients that use variety of Bank's products. Clients who are not late with payments of liabilities at the moment, nor in last 12 months. New agreements are generally made with clients from this category.

Management's attention – Clients with hardly satisfactory or not satisfactory financial situation. Maintaining credit position is very unlikely in middle term. Negative quality criteria are present. Client from retail sector with limited savings or probable to have problems in payment which set off reminders for early collection of receivables.

Sub-standard – Clients sensitive to negative financial and economic influences

Non-performing - Clients who have recorded one or more criteria for the activation of default status, in accordance with the definition of precisely prescribed by the internal acts of the Bank and Erste Group AG: uncertain collection, late payment with a material bearing exposure for more than 90 days, the restructuring that caused the loss to the Bank, the realization of a credit loss or the initiation of bankruptcy proceedings. In order to determine the default settlement status, the Bank applies an approach at the client level, including Retail clients; if the client is in the status of default of one product, then the other products of that client are classified as problematic receivables.

Monitoring and control of credit risk

Monitoring of credit risk

With goal of timely management of credit risk, regular client's risk analysis is carried out, which includes regular rating status, possibility of paying obligations towards Bank, audit of collaterals and agreeing upon terms from contract.

Bank's goal is to timely identify any kind of deterioration of portfolio which can result in material losses for Bank, so Bank can analyse complete status of debtor through regular re-approval. Importance of regular re-approval of credit exposure is in regular monitoring of client as well as quality of portfolio which is additional measure in optimisation of Bank's credit risk exposure.

Bank carries out evaluation of credit quality as foundation of clients' information, as well as taking in consideration all information about client as well as previous credit background between Bank and client.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Early Warning Signals

Systems and processes of early warning signals are used to detect early indications of unhealthy developments, to allow proactive measures of risk reductions. Bank applies methods of early recognition of increased credit risk with goal to increase effectiveness of collection even in cases of deterioration of portfolio which is revealed by following all relevant information these predicting changes in variables in future period which mainly includes client's liabilities fulfilment so far.

Control function EWS in Bank is organised within special part within Department for Credit Risk Management of legal entities.

Default status

Definition of default status in Bank follows regulatory demands of Group, translating it to 5 group of default status:

- Default event E1 – Small chances of payment of liabilities fully due to deterioration in credit quality of debtor
- Default event E2 – Delay longer than 90 days for materially important amount of debt
- Default event E3 – Modification of original contract terms of repayment due to estimation of deterioration of economic situation of client
- Default event E4 – Credit loss
- Default event E5 - Bankruptcy

Bank has set up a systemic process to provide identification and recognition of default status on client level. That means that in case of client getting in default status by any means of credit risk exposure of single placement, total balance or off-balance exposure Bank has to that client, including products which are not used for crediting client are classified as default status. Aforementioned is applicable to all Retail sector clients, as well as clients from other business segments.

In case of undertaken loan commitments which are part of off-balance assets of the Bank, exposure in default, represents nominal amount of liability which, in case of drawing funds or usage, leads to exposure of default risk without realisation of collateral.

In case of given financial guarantees, exposure in default status amounts to total nominal amount on which risk exists, which can occur in case of default status of total or partial exposure.

Default status can be activated on exposure level of a single placement or on the level of client, but general rule applicable in all cases is that client should have default status assigned for all singular exposures, which means client will have internal rating „R", despite the fact if default status was activated on a level of a single exposure or client level.

All Bank's clients are in default status and accordingly they were assigned internal rating (R1-R5) if even a single default event was realised E1-E5.

If Bank estimates that criterias which led to default status are no longer applicable and client is able to continue with repayment of debt in accordance with contract, Bank will change rating of client since that client is no longer in default status.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Default status (continued)

Minimal general conditions, which have to be fulfilled before leaving default status and change of „R"rating are:

- Not a single event E1-E5 is valid at the moment and additional impairments for singular loan exposures are not expected, and
- Monitoring period is finished with success

Every default event has precisely defined minimal duration, and leaving default status is acceptable only after successful monitoring period which happens after expiration/cessation of default event E1-E5 for clients which have any kind of loan liability and which lasts 3 months after. Concretely, in order to successfully finish monitoring period, during its time is not allowed to start or be active any criteria which can start some of previously defined default events E1-E5.

Receivables write-off

In accordance with the Rulebook on the write-off of receivables and the transfer of receivables from the balance sheet into the off-balance sheet, the Bank makes a write-off of non-performing receivables after all the options for collection are exhausted. In addition, a write-off can also be considered in a situation where a subsequent judicial proceeding is not economically justified by higher costs in relation to collection, when a subsequent proceeding of any kind is not effective. The write-off of receivables is done only for non-credit placements that are impaired. For claims in a litigation or bankruptcy that are fully impaired (for which a value adjustment of 100% has been made), and which is judged to be too long for the court process or bankruptcy and thus represent a burden on the balance sheets of the Bank, a decision on the transfer of receivables from the balance sheet to the off-balance sheet, whereby no debt is forgiven, i.e. in this case the Bank does not waive the contractual and legal rights on the basis of that claim.

In addition, the Bank in accordance with the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets of the Bank "Official Gazette of the Republic of Serbia", no. 77/2017 of 10 August 2017, performs an accounting write-off of problematic receivable in the case when the amount of the impairment of that receivable was recorded by the bank in favour of impairment of the value of 100% of its gross carrying amount.

Maximum exposure to credit risk in balance sheet and off-balance sheet items.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with Balance sheet items as of December 31, 2017 is presented in the following table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	Accumulated allowance for impairment / provisions	Net value	Assets not exposed to credit risk	Balance sheet
Cash and funds at Central Bank	9,293,751	-	9,293,751	11,480,276	20,774,027
Financial assets through profit and loss held for trading	11,539,464	-	11,539,464	-	11,539,464
Financial assets available for sale	12,488,599	6	12,488,593	-	12,488,593
Financial assets held to maturity	8,329,870	45,418	8,284,452	-	8,284,452
Loans and receivables from banks and other financial organizations	2,223,240	12,687	2,210,553	-	2,210,553
Loans and receivables from customers	108,066,211	3,926,158	104,140,053	-	104,140,053
Investments in subsidiaries	-	-	-	93,560	93,560
Intangible assets	-	-	-	247,290	247,298
Properly, plant and equipment	-	-	-	1,070,689	1,070,689
Non-current assets held for sale and discontinued operations	-	-	-	11,901	11,901
Other assets	756,671	57,331	699,340	361.075	1.060.415
Balance sheet	**152,697,806**	**4,041,600**	**148,656,206**	**13,264,799**	**142,916,481**
Guarantees and warranties	12,396,034	148,158	12,247,876	-	12,247,876
Assumed contingent liabilities	24,834,817	177,825	24,656,992	-	24,656,992
Other off-balance exposure	-	-	-	216,002,505	216,002,505
Off-balance sheet	**37,230,851**	**325,983**	**36,904,868**	**216,002,505**	**252,907,373**
Total exposure	**189,928,657**	**4,367,583**	**185,561,074**	**229,267,304**	**414,828,378**

In accordance with Bank's policy, sources of credit risk are loans portfolio and receivables from customers, banks and other financial institutions, as well as off-balance exposure in form of financial guarantees and undertaken assumed liabilities, below in detail those exposures[1] are presented by of sector, category, status, collateral, maturity and value of collateral.

[1] Other balance sheet exposures which Bank considers to be exposed to credit risk are primarily from activities which support Bank's operations (forming of liquidity reserves, respectively managing of short-term liquidity, as well as optimisation of interest income through managing assets, liabilities and equity) and are considered to be of high risk quality

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

31.12.2017	Securities			
	Gross value	Of which: impaired	Accumulated value adjustments	Of which: impairment losses on impaired receivables
Financial assets at fair value through profit and loss for trading	**11,539,464**	**-**	**-**	**-**
Of which: State bonds of the Republic of Serbia	11,213,908	-	-	-
Of which: Other	325,556	-	-	-
Financial assets available for sale	**12,488,600**	**-**	**7**	**-**
Of which: State bonds of the Republic of Serbia	12,385,371	-	-	-
Of which: Other	103,229	-	7	-
Financial assets held to maturity	**8,329,869**	**-**	**45,417**	**-**
Of which: State bonds of the Republic of Serbia	8,329,869	-	45,417	-
Of which: Other	-	-	-	-
Total exposure	**32,357,933**	**-**	**45,424**	**-**

As at 31 December 2017, 98.7% of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the bank, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2017:
- Moody's Investors Service Ba3 / stable outlook
- Fitch Ratings BB / stable outlook
- Standard and Poor's BB / stable outlook

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items that Bank does not consider to be exposed to credit risk, in accordance with Balance sheet items as of December 31, 2016 is presented in the following table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	Accumulated allowance for impairment / provisions	Net value	Assets not exposed to credit risk	Balance sheet
Cash and funds at Central Bank	8,403,985	-	**8,403,985**	10,842,685	**19,246,670**
Financial assets through profit and loss held for trading	13,048,357	-	**13,048,357**	-	**13,048,357**
Financial assets available for sale	7,303,359	120,657	**7,182,702**	-	**7,182,702**
Financial assets held to maturity	8,635,103	-	**8,635,103**	-	**8,635,103**
Loans and receivables from banks and other financial organizations	1,222,400	10,621	**1,211,779**	-	**1,211,779**
Loans and receivables from customers	97,596,517	6,382,944	**91,213,573**	-	**91,213,573**
Investments in subsidiaries	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	278,845	**278,845**
Properly, plant and equipment	-	-	-	811,073	**811,073**
Investment property	-	-	-	232,417	**232,417**
Deferred tax assets	-	-	-	59,523	**59,523**
Non-current assets held for sale and discontinued operations	-	-	-	56,294	**56,294**
Other assets	744,327	199,251	**545,076**	301,509	**846,585**
Balance sheet	**136,954,048**	**6,713,473**	**130,240,575**	**12,675,906**	**142,916,481**
Guarantees and warranties	8,197,983	109,112	**8,088,871**	-	**8,088,871**
Assumed contingent liabilities	13,808,943	168,369	**13,640,574**	-	**13,640,574**
Other off-balance exposure	-	-	-	165,945,394	**165,945,394**
Off-balance sheet	**22,006,926**	**277,481**	**21,729,445**	**165,945,394**	**187,674,838**
Total exposure	**158,960,974**	**6,990,954**	**151,970,020**	**178,621,300**	**330,591,319**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

31.12.2016	Securities			
	Gross value	Of which: impaired	Accumulated value adjustments	Of which: impairment losses on impaired receivables
Financial assets at fair value through profit and loss for trading	**13,048,357**	**-**	**-**	**-**
Of which: State bonds of the Republic of Serbia	12,591,622	-	-	-
Of which: Other	456,735	-	-	-
Financial assets available for sale	**7,303,359**	**118,219**	**120,657**	**118,219**
Of which: State bonds of the Republic of Serbia	7,072,110	-	-	-
Of which: Other	231,249	118,219	120,657	118,219
Financial assets held to maturity	**8,635,103**	**-**	**-**	**-**
Of which: State bonds of the Republic of Serbia	8,635,103	-	-	-
Of which: Other	-	-	-	-
Total exposure	**28,986,819**	**118,219**	**120,657**	**118,219**

As at 31 December 2016, 97.6% of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the bank, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2016:
- Moody's Investors Service Ba3 / stable outlook
- Fitch Ratings BB- / stable outlook
- Standard and Poor's BB- / positive outlook

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as of December 31, 2017:

In RSD '000

	Credit quality of non-problematic receivables[2]				Value of collateral		
	High	Medium	Low	Problematic receivables[3]	Non-problematic receivables	Problematic receivables	The impact of collateral on reducing the value of impairment*
Receivables from retail customers	**40,146,827**	**4,632,425**	**1,066,434**	**1,519,460**	**19,078,837**	**543,120**	**442,991**
Housing loans	23,266,017	946,128	352,993	794,528	18,899,076	540,434	436,875
Consumer and cash loans	14,893,934	3,322,491	628,129	600,733	99,035	1,350	1,148
Transactions and credit cards	652,117	104,604	20,339	20,190	1,533	136	53
Other receivables	1,334,759	259,202	64,974	104,009	79,193	1,200	4,915
Receivables from corporate clients	**51,008,159**	**3,228,377**	**478,990**	**1,481,793**	**15,077,819**	**919,975**	**625,636**
Large enterprises	8,390,880	61,810	-	416,685	4,178,991	415,599	144,502
Small and middle sized enterprises	32,941,138	741,422	100,633	676,790	8,044,391	238,113	286,108
Micro sized enterprises and entrepreneurs	8,840,751	901,425	207,318	330,450	1,303,339	247,385	175,525
Agriculture	101,503	95,154	37,516	57,867	127,498	18,877	16,516
Public enterprises	733,885	1,428,567	133,523	-	1,423,601	-	2,986
Receivables from other clients	**5,406,083**	**717,832**	**1**	**603,071**	**605,816**	**439,619**	**99,387**
Total receivables	**96,561,068**	**8,578,634**	**1,545,425**	**3,604,324**	**34,762,473**	**1,902,714**	**1,168,015**

* The effect of collateral on the reduction of impairment calculated by simulating the LGD parameter by excluding collateral. The simulation refers to general provisions and special provisions for individually significant clients (for impaired exposures that are not considered individually significant collateral does not affect the value of LGD).

[2] Credit quality of non-problematic claims corresponds to the classification of low risk (high), special supervision (medium) and below-standard (low) defined in part 33.2 Credit risk.

[3] Problematic claims of the Bank include claims in the status of default (see "33.2 Credit Risk") and restructured claims "Non performing forbearance" (see 33.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as of December 31, 2016:

In RSD '000

	Credit quality of non-problematic receivables[4]				Value of collateral		The impact of collateral on reducing the value of impairment*
	High	Medium	Low	Problematic receivables[5]	Non-problematic receivables	Problematic receivables	
Receivables from retail customers	26,767,384	4,832,979	1,161,490	2,270,841	12,777,369	569,809	596,732
Housing loans	14,070,281	917,149	504,475	866,526	12,574,769	561,611	586,140
Consumer and cash loans	10,498,291	3,379,768	535,574	1,120,044	117,400	2,447	3,572
Transactions and credit cards	654,322	127,814	30,325	54,731	2,235	258	95
Other receivables	1,544,489	408,248	91,117	229,540	82,967	5,492	6,926
Receivables from corporate clients	48,468,267	5,530,255	251,889	2,941,335	17,510,898	1,306,491	1,004,204
Large enterprises	9,537,170	88,249	0	32,997	2,520,120	36	48,440
Small and middle sized enterprises	28,933,212	2,281,290	179,709	1,787,066	10,190,730	902,927	611,498
Micro sized enterprises and entrepreneurs	9,849,244	611,439	36,467	727,357	2,196,498	365,719	304,849
Agriculture	144,754	77,216	35,713	71,599	132,315	37,809	23,681
Public enterprises	3,886	2,472,061	-	322,315	2,471,235	-	15,735
Receivables from other clients	1,777,852	3,461,628	397	1,354,601	751,398	718,452	224,019
Total receivables	77,013,502	13,824,862	1,413,776	6,566,777	31,039,665	2,594,752	1,824,955

[4] Credit quality of non-problematic claims corresponds to the classification of low risk (high), special supervision (medium) and below-standard (low) defined in part 33.2 Credit risk.
[5] Problematic claims of the Bank include claims in the status of default (see "33.2 Credit Risk") and restructured claims "Non performing forbearance" (see 33.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as of December 31, 2017:

In RSD '000

	Unimpaired receivables[6]		Impaired receivables[7]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	45,779,073	220,681	649,285	716,107	47,365,146	779,698	341,182	454,711	45,789,554	19,140,755	481,202
Mortgage loans	24,602,320	37,469	639,428	80,449	**25,359,666**	293,798	334,685	33,032	**24,698,150**	18,960,418	479,091
Consumer and cash loans	18,785,960	135,143	1,370	522,814	**19,445,288**	434,183	1,343	336,830	**18,672,931**	99,610	775
Transactions and credit cards	775,535	1,825	101	19,788	**797,249**	15,341	101	13,576	**768,231**	1,533	136
Other receivables	1,615,258	46,244	8,386	93,056	**1,762,943**	36,376	5,052	71,273	**1,650,243**	79,193	1,200
Receivables from corporate clients	54,468,880	246,646	1,466,614	15,179	56,197,318	710,329	1,076,458	8,833	54,401,698	15,077,819	919,975
Large enterprises	8,413,079	39,610	416,085	599	**8,869,375**	100,803	314,970	240	**8,453,362**	4,178,991	415,599
Small and middle sized enterprises	33,647,890	135,304	674,036	2,754	**34,459,985**	364,567	531,404	1,329	**33,562,685**	8,044,391	238,113
Micro sized enterprises	9,891,740	57,753	325,336	5,115	**10,279,944**	200,609	190,556	3,716	**9,885,062**	1,303,339	247,385
Agriculture	226,296	7,877	51,157	6,710	**292,040**	9,566	39,528	3,548	**239,398**	127,498	18,877
Public enterprises	2,289,874	6,101	-	-	**2,295,975**	34,783	-	-	**2,261,192**	1,423,601	-
Receivables from other customers	6,025,522	98,394	603,070	1	6,726,987	54,784	512,848	1	6,159,354	605,816	439,619
Total exposure	106,273,474	565,721	2,718,969	731,287	110,289,451	1,544,811	1,930,488	463,545	106,350,606	34,824,391	1,840,796
By category of receivables											
Non-problematic receivables	106,122,065	563,061	-	-	**106,685,127**	1,528,115	-	-	**105,157,012**	34,762,473	-
of which: restructured	305,860	2,354	-	-	**308,213**	26,501	-	-	**281,712**	115,711	-
Problematic receivables	151,409	2,659	2,718,969	731,287	**3,604,324**	16,696	1,930,488	463,545	**1,193,595**	61,918	1,840,796
of which: restructured	148,867	2,501	1,493,105	153,119	**1,797,591**	16,572	1,104,810	73,002	**603,208**	61,086	1,085,126
Total exposure	106,273,474	565,721	2,718,969	731,287	110,289,451	1,544,811	1,930,488	463,545	106,350,606	34,824,391	1,840,796

[6] Bank considers as unimpaired receivables those who are not in default status and receivables without evidence of impairment

[7] Bank considers as impaired receivabvles those who are in default status and with evidence of impairment

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as of December 31, 2016:

In RSD '000

	Unimpaired receivables[8]		Impaired receivables[9]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**32,736,712**	**189,794**	**661,242**	**1,444,947**	**35,032,694**	**794,647**	**270,514**	**1,167,866**	**32,799,667**	**12,840,649**	**506,530**
Mortgage loans	15,547,007	33,588	623,938	153,897	**16,358,431**	197,374	238,041	102,166	**15,820,849**	12,637,321	499,060
Consumer and cash loans	14,376,386	107,152	30,275	1,019,865	**15,533,677**	499,014	30,276	831,148	**14,173,239**	118,127	1,720
Transactions and credit cards	810,953	1,908	175	54,155	**867,191**	28,496	175	47,949	**790,570**	2,235	258
Other receivables	2,002,366	47,146	6,853	217,030	**2,273,395**	69,763	2,022	186,602	**2,015,009**	82,967	5,492
Receivables from corporate clients	**54,063,347**	**189,747**	**2,759,447**	**179,205**	**57,191,746**	**817.529**	**2,058,257**	**171,955**	**54.144.005**	**17,513,492**	**1,303,898**
Large enterprises	9,616,904	8,515	32,781	215	**9,658,417**	177.176	30,667	275	**9.450.298**	2,520,120	36
Small and middle sized enterprises	31,265,645	128,566	1,723,286	63,780	**33,181,277**	458.569	1,307,276	61,822	**31.353.610**	10,190,730	902,927
Micro sized enterprises	10,459,196	40,638	642,189	82,485	**11,224,507**	176.152	394,386	77,583	**10.576.386**	2,199,092	363,125
Agriculture	245,692	11,991	38,876	32,724	**329,282**	5,560	19,349	32,274	**272,099**	132,315	37,809
Public enterprises	2,475,910	37	322,315	-	**2,798,263**	71	306,580	-	**2,491,611**	2,471,235	-
Receivables from other customers	**5.128.640**	**111,237**	**936,619**	**417,982**	**6,594,478**	**77.903**	**728,055**	**314,270**	**5.474.249**	**751,398**	**718,452**
Total exposure	**91,928,698**	**490,778**	**4,357,308**	**2,042,133**	**98,818,917**	**1.690.079**	**3,056,826**	**1,654,091**	**92.417.921**	**31,105,538**	**2,528,879**
By category of receivables											
Non-problematic receivables	91,763,999	488,141	-	-	**92,252,140**	1.680.218	-	-	**90.571.922**	31,039,665	-
which from: restructured	541,551	9,613	-	-	**551,165**	19,739	-	-	**531.426**	398,235	-
Problematic receivables	164,699	2,636	4,357,308	2,042,133	**6,566,777**	9.861	3,056,826	1,654,091	**1.845.999**	65,873	2,528,879
which from: restructured	162,046	2,574	1,501,657	590,997	**2,257,274**	7,670	1,103,757	402,355	**743,491**	64,997	1.171.368
Total exposure	**91,928,698**	**490,778**	**4,357,308**	**2,042,133**	**98,818,917**	1.690.079	**3,056,826**	**1,654,091**	**92.417.921**	**31,105,538**	**2,528,879**

[8] Bank considers as unimpaired receivables those who are not in default status and receivables without evidence of impairment

[9] Bank considers as impaired receivabvles those who are in default status and with evidence of impairment

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2017:

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	up to 30 days	from 31 to 60 days	from 61 to 90 days	over 90 days	Not in delay	up to 90 days	from 91 to 180 days	from 181 to 360 days	over 360 days
Receivables from retail clients	38,971,635	6,702,158	248,316	77,619	25	259,536	284,437	162,348	180,104	478,968
Mortgage loans	23,846,586	689,213	86,358	17,632	-	159,098	116,131	45,294	72,050	327,304
Consumer and cash loans	13,211,849	5,527,812	130,416	51,027	-	87,036	144,565	98,054	84,827	109,702
Transactions and credit cards	755,392	3,192	15,399	3,377	-	4,326	2,172	4,709	3,620	5,063
Other receivables	1,157,807	481,941	16,144	5,584	25	9,076	21,569	14,290	19,607	36,899
Receivables from corporate clients	**51,279,614**	**3,413,902**	**14,942**	**7,067**	-	**391,748**	**35,759**	**12,883**	**14,819**	**1,026,583**
Large enterprises	8,377,868	74,822	-	-	-	599	-	-	-	416,085
Small and middle sized enterprises	31,731,945	2,051,249	-	-	-	278,297	25,429	-	13,676	359,389
Micro sized enterprises and entrepreneurs	8,666,755	1,262,650	13,472	6,616	-	112,844	4,554	1,785	168	211,099
Agriculture	210,671	21,581	1,470	451	-	8	5,776	11,098	975	40,010
Public enterprises	2,292,375	3,600	-	-	-	-	-	-	-	-
Receivables from other customers	**6,097,582**	**26,333**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**603,070**
Total exposure	**96,348,831**	**10,142,393**	**263,259**	**84,687**	**25**	**651,286**	**320,196**	**175,231**	**194,924**	**2,108,621**
By category of receivables										
Non-problematic receivables	96.296.443	10,089,229	217.352	82.104	-	-	-	-	-	-
which from: restructured	237,970	67,156	2.942	146	-	-	-	-	-	-
Problematic receivables	52,389	53,164	45.907	2.583	25	651,286	320,196	175,231	194,924	2,108,621
which from: restructured	51,313	51,821	45.702	2.532	-	528,870	109,750	21,326	18,124	968.153
Total exposure	**96,348,831**	**10,142,393**	**263.259**	**84.687**	**25**	**651,286**	**320,196**	**175,231**	**194,924**	**2,108,621**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2016:

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	up to 30 days	from 31 to 60 days	from 61 to 90 days	over 90 days	Not in delay	up to 90 days	from 91 to 180 days	from 181 to 360 days	over 360 days
Receivables from retail clients	27,388,404	5,197,960	261,019	79,096	25	258,699	241,918	243,158	237,153	1,125,260
Mortgage loans	14,748,687	705,120	101,428	25,360	-	161,499	79,253	95,318	63,144	378,621
Consumer and cash loans	10,482,711	3,840,623	117,901	42,303	-	82,872	141,213	109,733	138,314	578,008
Transactions and credit cards	787,771	3,787	17,530	3,773		3,481	1,943	6,491	6,708	35,706
Other receivables	1,369,236	648,431	24,160	7,660	25	10,846	19,509	31,616	28,987	132,924
Receivables from corporate clients	**50,972,232**	**3,256,360**	**16,549**	**7,954**	**-**	**388,650**	**142,975**	**276,471**	**227,554**	**1,903,000**
Large enterprises	9,567,673	57,747	-	-	-	215	-	32,781	-	-
Small and middle sized enterprises	29,176,772	2,211,519	5,920	-	-	213,076	96,846	6,488	202,096	1,268,560
Micro sized enterprises and entrepreneurs	9,544,491	944,952	6,536	3,855	-	10,751	46,030	237,153	16,547	414,193
Agriculture	207,349	42,142	4,093	4,099	-	3,519	99	48	8,912	59,022
Public enterprises	2,475,947	-	-	-	-	161,090	-	-	-	161,225
Receivables from other customers	**5,224,894**	**14,982**	**-**	**-**	**-**	**26,755**	**383,225**	**-**	**50,810**	**893,811**
Total exposure	**83,585,530**	**8,469,302**	**277,569**	**87,050**	**25**	**674,104**	**768,118**	**519,629**	**515,518**	**3,922,072**
By category of receivables	-	-	-	-	-	-	-	-	-	-
Non-problematic receivables	83,488,077	8,428,072	259,046	76,944	-	-	-	-	-	-
which from:restructured	426,008	120,760	1,458	2,939	-	-	-	-	-	-
Problematic receivables	97,452	41,230	18,522	10,106	25	674,104	768,118	519,629	515,518	3,922,072
which from: restructured	95,433	40,729	18,353	10,106	-	355,339	521,772	163,423	222,643	829,476
Total exposure	**83,585,530**	**8,469,302**	**277,569**	**87,050**	**25**	**674,104**	**768,118**	**519,629**	**515,518**	**3,922,072**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(g) Data on problematic receivables as of December 31, 2017

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	which from: restructured receivables			
Receivables from retail clients	**47,365,146**	**1,575,591**	**1,519,460**	**463,530**	**812,589**	**3.21**	**543,120**
Housing loans	25,359,666	661,519	794,528	260,854	376,474	3.13	540,434
Consumers and cash loans	19,445,288	772,354	600,733	189,359	345,949	3.09	1,350
Transactions and credit cards	797,249	29,018	20,190	-	13,688	2.53	136
Other receivables	1,762,943	112,701	140,009	13,317	76,478	5.90	1,200
Receivables from corporate clients *	**52,468,778**	**1,660,685**	**1,399,026**	**1,018,873**	**1,026,716**	**2.67**	**892,591**
Sector A	2,272,157	95,599	68,457	47,243	46,998	3.01	19,474
Sectors B, C and E	13,654,361	611,286	622,143	621,159	454,343	4.56	551,544
Sector D	5,670,638	79,830	-	-	-	-	-
Sector F	10,188,389	179,217	119,801	119,208	113,363	1.18	25,697
Sector G	10,587,707	474,556	455,235	224,072	322,154	4.30	212,477
Sector H, I and J	3,660,781	62,814	3,425	-	2,811	0.09	1,948
Sector L, M and N	6,434,746	157,383	129,965	7,191	87,047	2.02	81,452
Receivables from other clients	**10,455,527**	**702,569**	**685,838**	**315,188**	**571,424**	**6.56**	**467,003**
Total receivables	**110,289,451**	**3,938,845**	**3,604,324**	**1,797,591**	**2,410,729**	**3.27**	**1,902,714**

* Sector A – Electricity, gas, steam and air conditioning
Sectors B, C and E - Construction
Sector D – Agriculture, forestry, fishing
Sector F - Mining, processing industry, water supply, waste water management and similar activities
Sector G – Retail and wholesale, repair of motor vehicles and motor bikes
Sectors H, I and J – Traffic and storage, accommodation and food services, information and communication
Sectors L, M and N – Real estate business, professional, scientific and technical activities, administrative and support service activities, arts

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(g) Data on problematic receivables as of December 31, 2016

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables Total	Gross value of problematic receivables which from: restructured receivables	Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
Receivables from retail clients	**35,032,694**	**2,233,027**	**2,270,841**	**483,494**	**1,445,916**	**6.48**	**569,809**
Housing loans	16,358,431	537,581	866,526	266,328	344,567	5.30	561,611
Consumers and cash loans	15,533,677	1,360,438	1,120,044	196,261	864,327	7.21	2,447
Transactions and credit cards	867,191	76,620	54,731	-	48,138	6.31	258
Other receivables	2,273,395	258,386	229,540	20,905	188,883	10.10	5,492
Receivables from corporate clients *	**53,323,147**	**2,553,082**	**2,419,064**	**1,098,488**	**1,765,082**	**29.92**	**1,231,791**
Sector A	2,309,513	154,466	166,834	50,542	125,257	7.22	51,482
Sectors B, C and E	15,046,203	824,207	852,809	262,981	612,935	5.67	333,883
Sector D	5,871,950	101,380	-		-	-	-
Sector F	10,293,193	398,507	320,090	136,784	263,356	3.11	135,110
Sector G	9,119,934	761,217	837,655	618,700	623,712	9.18	558,535
Sector H, I and J	5,986,848	135,244	89,641	22,348	35,341	1.50	68,077
Sector L, M and N	4,695,506	178,062	152,037	7,133	104,481	3.24	84,704
Receivables from other clients	**10,463,077**	**1,607,456**	**1,876,872**	**675,292**	**1,507,665**	**17.94**	**793,152**
Total receivables	**98,818,917**	**6,393,565**	**6,566,777**	**2,257,274**	**4,718,663**	**54.34**	**2,594,752**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(d) Data on changes of problematic receivables in 2017:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables: Total	which from: collected	which from: transferred to non-problematic category	which from: write-off	Other changes[10]	Gross value at year end	Net value at year end
Receivables from retail clients	2,270,841	781,076	1,562,146	316,711	366,532	878,903	29,689	1,519,460	706,874
Receivables from corporate and other clients	4,295,936	98,933	2,408,933	892,478	165,393	1,351,063	98,929	2,084,864	486,724
Total receivables	**6,566,777**	**880,009**	**3,971,079**	**1,209,188**	**531,925**	**2,229,966**	**128,617**	**3,604,324**	**1,193,598**

Data on changes of problematic receivables in 2016:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables: Total	which from: collected	which from: transferred to non-problematic category	which from: write-off	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	2,600,645	905,859	1,383,676	392,977	572,906	417,793	148,014	2,270,841	824,925
Receivables from corporate and other clients	5,990,941	503,051	2,459,016	1,038,706	15,265	1,405,045	260,960	4,295,936	1,023,190
Total receivables	**8,591,585**	**1,408,910**	**3,842,692**	**1,431,683**	**588,171**	**1,822,838**	**408,974**	**6,566,777**	**1,848,115**

[10] Other changes are related to foreign exchange differences and increase of exposure of already existing problematic receivables

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Collateral and other means of protection against credit risk

During the process of loan approval, the Bank expects to collect receivable primarily from future cash flow of debtor. In addition, to reduce loss of potential default status, Bank takes various security instruments (collaterals) as protection. Bank takes as many collaterals as possible, whereby priority is given to collaterals that can be realised easy and simply. Possibility of taking collateral depends on current market situation and competition. The effectiveness of credit risk mitigation technique is measured and controlled by monitoring time taken for the realisation of collateral and deviation of realised and expected value of collateral.

Department for collateral management is a part of Department for strategic risks management, which is in charge of collateral management process – from preliminary analyses to realisation of collateral. Process is divided into 3 phases:

Collateral analysis phase – represents initial phase of process of collateral management. It begins with identification and analysis of potential collateral and collecting necessary information and documentation. Phase ends with record of collateral within collateral evidence system.

Collateral monitoring phase – relates to monitoring of restitution and value of collateral. One of its main functions is to record, monitor, update and control date about collaterals in collateral evidence system.

Collateral realisation phase – represents the last phase, when it comes to realisation of collateral (e.g.. selling collateral in order to close loan) and closing collateral in collateral evidence system. It also includes the phase of data collection for calculation of average realisation rate and collection from them – Collateral Recovery Ratio.

Each phase is regulated by the Procedure of collateral management that defines tasks and responsibilities of organizational parts involved in the process.

In addition, Collateral management department is also in charge of process of selection, monitoring and removal of appraisers from list of appraisers that are acceptable for the Bank, and defining minimum of content of estimation report, as well as control of appliance of appropriate methodology during collateral value estimation, all with goal to determine as precise value of collateral as possible. Rules for standards and methodology of estimations are considered within Collateral management Policy.

Check of value of collateral is being done periodically and it depends on type of check and collateral. Way of checking value of collateral can be split into valuation by external appraisers or state entities authorised to determine the value (revaluation, Tax statement) and internal monitoring of value of collateral by the employees in the Department of collateral management (monitoring). Dynamics of checks of collateral value is defined depending on type of collateral and in accordance with local and internal regulations.

In the process of calculation of capital requirement for credit risk, Department for strategic risk management, after checking compliance with applicable legal regulations defined in Decision on capital adequacy of banks, determines whether particular collateral will be accepted as an instrument of credit risk reduction. Collateral items acceptable as instrument of credit risk reduction are explained in detail in Bank's separate internal procedure that defines applicable instruments of credit risk reduction as well as terms of recognition of credit risk reduction instruments.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Basic types of credit protection instruments

The Bank applies primarily cash and cash equivalents deposited with the Bank as instruments of material credit protection.

At the moment, the Bank does not apply balance and off-balance netting as credit risk reduction technique.

Primary types of credit risk protection on the basis of guarantees and credit derivatives

Guarantees applied as immaterial credit protection are provided by:

- Government – as at 31.12.2017 to mitigate credit risk-weighted assets is used guarantee provided by Republic of Serbia. Preferential credit risk ponder of 0% was applied in accordance with Decision on capital adequacy prescribed by NBS;
- Commercial banks of sufficient credit quality – exposures secured by a bank guarantee

In its portfolio of acceptable means of collateral bank has no credit derivatives, thus they are not used as instruments of credit protection.

Exposures secured by mortgages on real estate

Real estate is recognized as a protection instrument when all the requirements defined by the Decision on the capital adequacy of banks are met. The fulfilment of the prescribed requirements is a prerequisite for classifying the given exposure into a special class of exposure, exposures secured by mortgages on real estate, which are given a more favourable credit risk weight, instead of recognizing the effects of credit risk mitigation techniques. Bank exposure or parts of exposure with a fully secured mortgage on a residential property in which the owner resident or has leased that real estate under an appropriate contract (or intends to reside or lease it) - assigns a risk weight of 35% or exposures fully secured to mortgages on business real estate, assigns a risk weight of 50%.

Other types of credit protection instruments

Similar means of collateral in the form of financial assets for all approaches and methods are considered cash and cash equivalents deposited with the bank when all the requirements defined by the Decision on the capital adequacy of banks are fulfilled.

In addition to above mentioned, the Bank applies following instruments of material credit protection, but they are not taken into consideration in calculation of risk-weighted assets:

- pledge on movable property;
- pledge on receivables;
- pledge on share and bonds;
- endorsed life insurance policy;
- other types defined in Bank's collateral catalogue

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on the type and value of collateral and guarantees by sector providers and categories of receivables as at 31 December 2017:

In RSD '000

	Means of collateral*[11]			
	Deposits	Residential real estate	Other real estate	Guarantees issued by the Government
Receivables from retail clients	**69,863**	**19,349,080**	**203,014**	-
Household loans	28,057	19,276,792	134,661	-
Consumer and cash loans	40,136	41,307	18,941	-
Transactions and credit cards	1,670	-	-	-
Other receivables	-	30,980	49,412	-
Receivables from corporate clients	**1,006,614**	**399,970**	**13,167,610**	**1,423,601**
Large enterprises	-	-	4,594,590	-
Small and middle sized enterprises	695,762	252,921	7,333,823	-
Micro sized enterprises and entrepreneurs	309,764	134,602	1,106,358	-
Agriculture	1,088	12,448	132,839	-
Public enterprises	-	-	-	1,423,601
Receivables from other customers	**134,313**	**77,207**	**833,916**	-
Total exposure	**1,210,789**	**19,826,257**	**14,204,540**	**1,423,601**
Per category of receivables				
Non-problematic receivables	1,210,653	19,208,700	12,919,521	1,423,601
which off: restructured	-	112,366	3,345	-
Problematic receivables	136	617,558	1,285,019	-
which off: restructured	-	181,246	964,967	-
Total receivables	**1,210,789**	**19,826,257**	**14,204,540**	**1,423,601**

[11] The value of the collateral is determined on the basis of the assessment of an authorized appraiser (or some other document relative to the type of collateral) with possible internal corrections, followed by a collateral haircut in accordance with the collateral catalog and reduced by the previous charges.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on the type and value of collateral and guarantees by sector providers and categories of receivables as at 31 December 2016:

In RSD '000

	Means of collateral*			
	Deposits	Residential real estate	Other real estate	Guarantees issued by the Government
Receivables from retail clients	**56,995**	**13,130,492**	**159,691**	**-**
Household loans	709	13,047,937	87,735	-
Consumer and cash loans	53,736	44,635	21,475	-
Transactions and credit cards	2,493	-	-	-
Other receivables	57	37,921	50,481	-
Receivables from corporate clients	**2,300,550**	**663,321**	**13,382,283**	**2,471,235**
Large enterprises	464,658	-	2,055,498	-
Small and middle sized enterprises	1,497,902	378,762	9,216,994	-
Micro sized enterprises and entrepreneurs	337,990	255,560	1,968,667	-
Agriculture	-	28,999	141,125	-
Public enterprises	-	-	-	2,471,235
Receivables from other customers	**161,850**	**33,765**	**1,274,234**	**-**
Total exposure	**2,519,395**	**13,827,578**	**14,816,208**	**2,471,235**
Per category of receivables	-	-	-	-
Non-problematic receivables	2,518,664	12,989,411	13,060,355	2,471,235
which off: restructured	-	145,485	252,750	-
Problematic receivables	731	838,168	1,755,854	-
which off: restructured	-	257,284	979,081	-
Total receivables	**2,519,395**	**13,827,578**	**14,816,208**	**2,471,235**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

During 2017, the Bank had acquired following means of collateral through collection of receivables:

In RSD '000

Means of collateral acquired through collection of receivables	Residential real estate	Total
Gross value at the beginning of period	**13,901**	**13,901**
Sold during period	1,828	1,828
Gross value at period end	12,073	12,073
Accumulated allowance for impairment	12,073	12,073
off which: Allowance for impairment during period	- -	-
Net value at the end of period	**-**	**-**

During 2016, the Bank had acquired following means of collateral with collection of receivables:

In RSD '000

Means of collateral acquired through collection of receivables	Residential real estate	Total
Gross value at the beginning of period	**85,785**	**85,785**
Sold during period	71,884	71,884
Gross value at period end	13,901	13,901
Accumulated allowance for impairment	13,009	13,009
off which: Allowance for impairment during period	-	-
Net value at the end of period	**892**	**892**

Basic principles of takeover and management of pledged property are regulated by the Procedure on the takeover of pledged asset in enforced collection procedure. Overtaken objects are mostly real estate and movable assets.

Basic principles to overtake assets (fixed and mobile) which have to be taken in consideration include analysis of market value and potential marketability of assets taken into consideration, which must be supported with expected sales revenue, which will lead uncollected receivable to the highest level possible. Depending on the characteristics of assets, type of asset (real estate, movable property) can be further divided into primary and secondary when takeover is taken into consideration, depending on their purpose and other characteristics, such as location, type, technical standards, equipment, year of construction and similar, as well as market situation in terms of supply and demand of certain type of collaterals. All above-mentioned parameters affect the final decision on implementation of the takeover procedure.

As strategies for management of assets collected through collection of receivables, the Bank applies sale, rent, development, retention, respectively combination of mentioned strategies. Suggestion of strategy must involve a real plan in terms of implementation of strategy. Estimated related expenses, income and effect on profit and loss must be taken in consideration. In case of suggesting retention strategy, cost of maintenance must be clearly presented in assets strategy.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

LTV ratio

The table below represent the so-called LTV ratio for housing loans, which represent a portion of the total retail loans approved.

In 'RSD 000

Value of LTV ratio*	Value of receivables secured by mortgage as of 31.12.2017	Value of receivables secured by mortgage as of 31.12.2016
Below 50%	3,823,580	2,731,984
50% to 70%	5,736,344	3,608,271
70% to 90*	11,506,367	5,136,903
90% to 100%	643,842	621,895
100% to 120%	1,064,246	1,229,669
120% to 150%	996,352	1,166,782
over 150%	1,588,935	1,842,702
Total exposure	**25,359,666**	**16,338,208**
Average LTV ratio	**78.5%**	**91.8%**

Estimation of financial assets impairment

Bank estimates impairment and calculates allowance for impairment of receivables recognized in balance sheet and provisions for losses on off-balance items in accordance with International Accounting standards (hereinafter: IAS) / International Financial Reporting Standards (hereinafter: IFRS).

Calculation of allowance for impairment includes special provision (individually or rule based) and general provisions (at group basis).

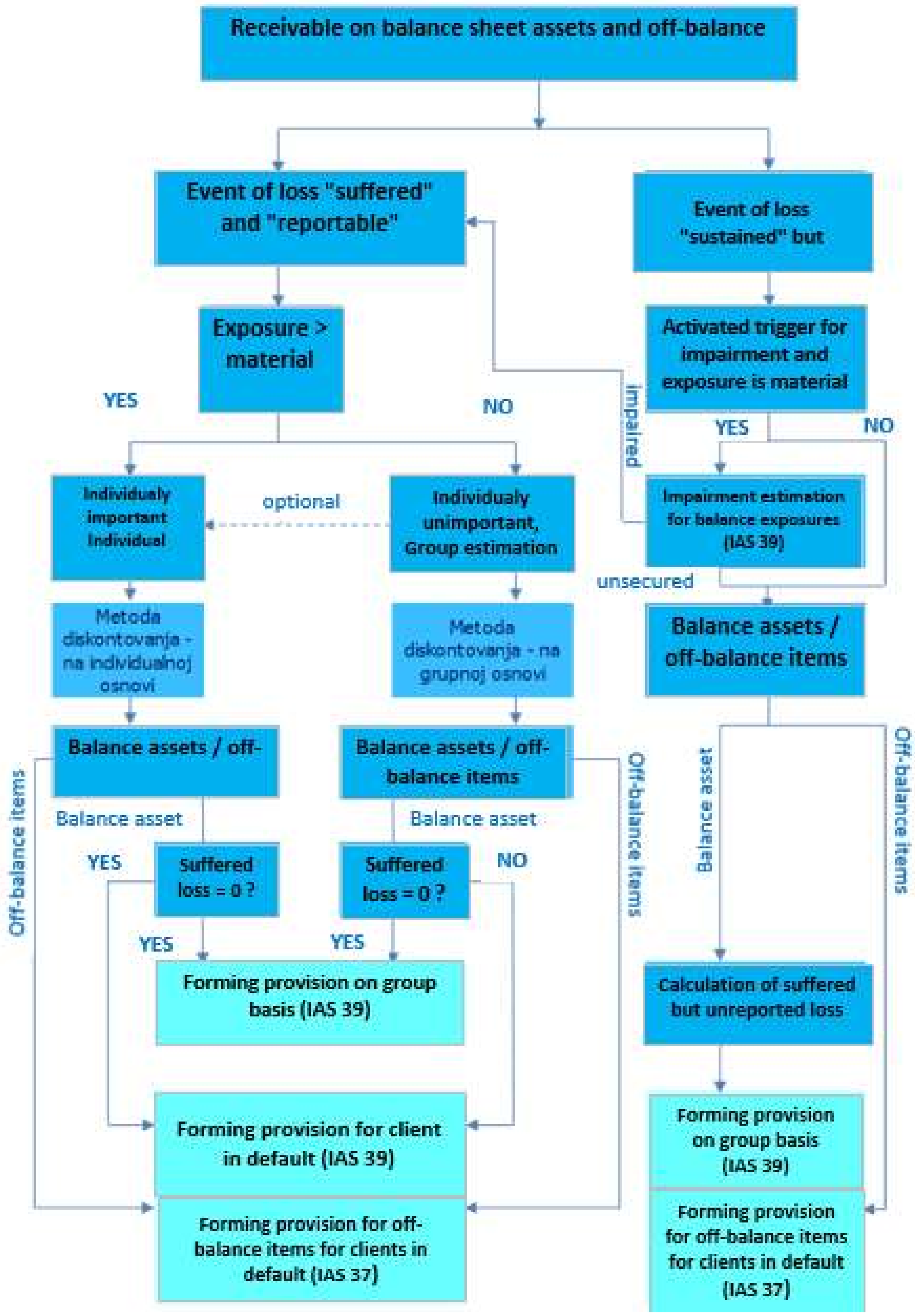
Special provisions are formed to exposures of clients in default status, respectively impaired exposures. Exposure is considered impaired once it is probable that the Bank will not be able to collect all agreed amounts, when client is in default. To be precise, the Bank determines through analysis of impairment if there is objective evidence of impairment of all receivables from client.

General provisions (at group basis) are applied for receivables for which there is no objective evidence of impairment, and it is formed to cover incurred but not detected losses, in situation when real impairment has not yet incurred. For these receivables allowance for impairment is calculated despite having no evidence of impairment, considering that experience points to that some of them will get in default during time. Allowance for impairment on group basis is formed and for loans which were subjected to individual estimation but had no impairment identified.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Presented process of forming allowance for impairment is applied in the Bank:



34. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

If client (or client's financial asset) is impaired, then he should already be in default status or he should have his rating reduced to default rating, if client had been previously assigned with „performing" rating. On the other side, if client is in default status, he does not have to be impaired, but impairment process is started.

Beside clients who are in default status, when impairment process is automatically started, for „performing" clients, impairment test is being carried out, if any of defined impairment drivers has been triggered, for individually significant clients. Impairment test as comparison of gross book value and discounted, estimated cash flow, is relevant only for balance sheet exposure.

Calculation of special provision

For every impaired exposure above threshold of materiality allowance for impairment is calculated by discounting cash flows. Bank considers client as individually important if his exposure is above RSD 5,000,000.

According to discontinued cash flow method, expected cash flow from client's operations and on basis of realisation of collateral are estimated by authorized employee of Department for restructuring and collection of loans (Workout manager) and Department for collection of receivables from corporate clients. Allowance for impairment is difference between book value of impaired loan and current value of expected cash flows, discounted with effective interest rate for that loan.

For impaired exposures that are not considered individually important, calculation is being done automatically based on the rules. Clients who are part of this sub-portfolio are classified by criteria of regularity in payment of liabilities.

Calculation of general provision

Receivables that do not provide objective evidence of impairment are classified in groups on basis of similar credit risk characteristics and their appropriate group allowance for impairment is calculated in compliance with group characteristics and credit risk level.

The bank uses the formula PLLP = EaD x PD x LGD x LIP to calculate the resulting or unreported loss, where:

- EaD – Exposure at default
- PD – Probability of default
- LGD – Loss given default
- LIP – Loss identification period

PD is a probability that performing client will get in default in a 12 month period, minimal standards for valuation of model and monitoring processes are set and described in Bank's Policy for framework of classification and rules of classification (rating).

For performing portfolio, LGD is determined on basis of expert opinion of Bank's management (taking care of collateral coverage) and parameters of standard approach according to Basel II.

Bank verifies methodology and assumptions used for estimating future cash flows in order to reduce differences between estimated and occurred losses through Back-testing analysis that is conducted once a year.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on changes of impaired receivables in 2017:

In RSD '000

	Gross value at beginning of period	Receivables impaired during year: Total	Receivables impaired during year: off which: impaired individually	Receivables which have ceased to be impaired during year: Total	Receivables which have ceased to be impaired during year: off which: impaired individually	Other changes	Gross value at period end	Net value at period end
Receivables from retail clients	**2,106,188**	**546,784**	**115,355**	**312,445**	**64,810**	**(975,135)**	**1,365,392**	**569,502**
Household loans	777,836	164,668	115,355	106,447	64,810	(116,179)	719,877	352,160
Consumer and cash loans	1,050,140	315,139	-	169,519	-	(671,576)	524,184	186,013
Transactions and credit cards	54,330	14,054	-	7,413	-	(41,081)	19,890	6,212
Other receivables	223,883	52,923	-	29,066	-	(146,298)	101,442	25,117
Receivables from corporate clients	**2,938,652**	**69,774**	**60,325**	**257,692**	**247,514**	**(1,268,940)**	**1,481,793**	**396,498**
Large enterprises	32,997	-	-	-	-	383,688	416,685	101,475
Small and middle sized enterprises	1,787,066	49,355	48,975	77,254	73,859	(1,082,376)	676,790	144,054
Micro sized enterprises and entrepreneurs	724,674	2,870	-	19,153	12,565	(377,941)	330,450	136,178
Agriculture	71,599	17,549	11,350	195	-	(31,086)	57,867	14,791
Public enterprises	322,315	-	-	161,090	161,090	(161,225)	-	-
Receivables from other customers	**1,354,601**	**1**	**-**	**52,015**	**50,810**	**(699,516)**	**603,071**	**90,222**
Total receivables	**6,399,441**	**616,559**	**175,680**	**622,152**	**363,134**	**(2,943,591)**	**3,450,256**	**1,056,223**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on changes of impaired receivables in 2016:

In RSD '000

	Gross value at beginning of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	off which: impaired individually	Total	off which: impaired individually			
Receivables from retail clients	**2,457,343**	**627,012**	**152,331**	**436,749**	**75,909**	**(541,418)**	**2,106,188**	**667,809**
Household loans	781,992	191,790	117,536	120,117	75,909	(75,829)	777,836	437,628
Consumer and cash loans	1,314,167	337,369	29,302	228,404	-	(372,992)	1,050,140	188,716
Transactions and credit cards	89,734	17,578	-	16,564	-	(36,418)	54,330	6,205
Other receivables	271,450	80,275	5,492	71,664	-	(56,179)	223,883	35,260
Receivables from corporate clients	**3,734,078**	**602,882**	**558,123**	**239,343**	**157,629**	**(1,158,965)**	**2,938,652**	**708,440**
Large enterprises	-	32,997	32,781	-	-	-	32,997	2,055
Small and middle sized enterprises	2,441,873	421,050	397,996	151,334	114,506	(924,523)	1,787,066	417,968
Micro sized enterprises and entrepreneurs	845,846	142,812	127,346	73,897	40,153	(190,087)	724,674	252,705
Agriculture	115,090	6,024	-	14,111	2,969	(35,403)	71,599	19,976
Public enterprises	331,269	-	-	-	-	(8,954)	322,315	15,735
Receivables from other customers	**2,238,377**	**64**	**-**	**493,630**	**476,773**	**(390,210)**	**1,354,601**	**312,276**
Total receivables	**8,429,798**	**1,229,958**	**710,454**	**1,169,722**	**710,310**	**(2,090,593)**	**6,399,441**	**1,688,525**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2017:

In RSD '000

	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**2,233,027**	**3,046,461**	**2,796,109**	**(907,787)**	**1,575,591**
Household loans	537,581	1,175,263	940,417	(110,912)	661,516
Consumer and cash loans	1,360,438	1,597,650	1,568,150	(617,582)	772,357
Transactions and credit cards	76,620	124,069	137,966	(33,705)	29,018
Other receivables	258,386	149,479	149,577	(145,588)	112,701
Receivables from corporate clients	**3,047,741**	**3,094,915**	**3,254,353**	**(1,092,683)**	**1,795,620**
Large enterprises	208,118	378,718	423,344	252,521	416,013
Small and middle sized enterprises	1,827,667	1,891,751	1,976,464	(845,655)	897,300
Micro sized enterprises and entrepreneurs	648,121	678,052	553,066	(378,225)	394,882
Agriculture	57,183	57,496	31,473	(30,564)	52,642
Public enterprises	306,651	88,898	270,006	(90,760)	34,783
Receivables from other customers	**1,120,228**	**771,700**	**929,630**	**(394,666)**	**567,633**
Total exposure	**6,400,996**	**6,913,076**	**6,980,092**	**(2,395,136)**	**3,938,845**
Per category of receivable:					
Non-problematic receivables:	1,680,217	4,420,160	4,726,920	154,658	1,528,115
of which: restructured	19,739	45,891	57,620	18,491	26.501
Problematic receivables:	4,720,778	2,492,916	2,253,172	(2,549,794)	2,410,729
of which: restructured	1,513,782	541,282	349,570	(511,111)	1.194.383
Total exposure	**6,400,996**	**6,913,076**	**6,980,092**	**(2,395,135)**	**3,938,845**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2016:

In RSD '000

	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**2,277,617**	**3,922,274**	**3,707,830**	**(259,034)**	**2,233,027**
Household loans	382,048	1,433,887	1,278,203	(150)	537,581
Consumer and cash loans	1,477,316	1,914,917	1,807,334	(224,461)	1,360,438
Transactions and credit cards	104,629	185,940	200,345	(13,604)	76,620
Other receivables	313,623	387,531	421,948	(20,819)	258,386
Receivables from corporate clients	**3,553,604**	**4,285,769**	**3,933,434**	**(865,645)**	**3,040,293**
Large enterprises	105,478	517,911	419,715	51	203,724
Small and middle sized enterprises	2,303,566	2,713,820	2,531,920	(660,850)	1,824,616
Micro sized enterprises and entrepreneurs	718,062	789,456	687,218	(172,182)	648,118
Agriculture	94,117	75,970	64,104	(48,800)	57,183
Public enterprises	332,380	188,612	230,477	16,137	306,651
Receivables from other customers	**1,674,164**	**1,133,858**	**1,175,074**	**(512,703)**	**1,120,245**
Total exposure	**7,505,385**	**9,341,901**	**8,816,339**	**(1,637,382)**	**6,393,565**
Per category of receivable:					
Non-problematic receivables:	1,307,829	5,286,610	5,234,997	315,461	1,674,902
of which: restructured	5,344	47,581	31,567	(1,620)	19.739
Problematic receivables:	6,197,556	4,055,291	3,581,341	(1,952,843)	4,718,663
of which: restructured	1,430,071	908,456	625,799	(198,945)	1.513.782
Total exposure	**7,505,385**	**9,341,901**	**8,816,339**	**(1,637,382)**	**6,393,565**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on accrued income from interest and collected interest in the period ended on December 31, 2017

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**3.014.753**	**2.752.249**	**289,679**	**51,159**
Household loans	790.550	727.825	68,687	10,499
Consumer and cash loans	1.968.255	1.802.786	178,355	33,373
Transactions and credit cards	148.193	129.360	20,878	2,350
Other receivables	107.755	92.279	21,759	4,937
Receivables from corporate clients	**2.266.480**	**1.948.653**	**161,789**	**10,156**
Large enterprises	336.495	321.852	14,225	-
Small and middle sized enterprises	1.306.541	1.207.841	85,342	6,702
Micro sized enterprises and entrepreneurs	519.227	319.295	50,457	2,354
Agriculture	30.163	19.830	11,670	1,100
Public enterprises	74.054	79.834	95	-
Receivables from other customers	**1.838.647**	**1.774.557**	**44,214**	**570**
Total receivables	**7.119.881**	**6.475.459**	**495,682**	**61,884**
Per category of receivable:				
Non-problematic receivables:	6.614.511	6.403.138	2.250	-
of which: restructured	16.830	14.788	478	-
Problematic receivables	505.370	72.322	493.432	61.884
of which: restructured	104.465	20.459	93.496	11.079
Total receivables	**7.119.881**	**6.475.459**	**495.682**	**61.884**

Interest income from loans is presented in accordance with IAS 39, in effective interest rate, which represents rate that discounts estimated future payments through expected life cycle of loan to net present value of loan.

In determining effective interest rate, all terms from contract related to that financial instrument are taken into account, but not future loan impairments.

With impaired loans, income is recognized in amount of income specified using the effective interest rate on the net book value (book value minus amount of impairment).

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Required reserves for estimated losses

In addition to Decision of NBS about classification of balance sheet assets and off-balance sheet items, bank does calculation of reserve for estimated losses that can occur on balance assets and off-balance items and determines amount of necessary reserve for estimated losses, that represents sum of positive differences between reserve for estimated loss and amount of allowance for impairment of balance assets and provisions for losses on off-balance items on level of a single debtor.

The required reserve for estimated losses on balance sheet assets and off-balance sheet items, is presented as a deduction on the Bank's equity in accordance with the decision on capital adequacy of banks, except in the case when the tern from clause 34a of the Decision of the National Bank of Serbia on the Classification of Balance Sheet Assets and Off-balance sheet items is satisfied ("Official Gazette RS", no. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016 и 101/2017 i 114/2017). In accordance with the stated above, the Bank does not classify required reserves for estimated losses as a deductible items of the capital.

Restructured Loans

Where possible, the Bank seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve extending the payment terms or any other modification to the original loan agreement provisions. Rescheduling or restructuring may be business rescheduling or forbearance as per EBA definition.

Business loan rescheduling entails alteration to the originally agreed loan terms not caused by the borrower's financial position deterioration, or mitigation of the consequences of the deteriorated financial position of the borrower, and does not represent restructuring. It is rather a result of a changed market situation (customers, suppliers, competitors) and the need to adjust the loan repayment schedule and terms to the newly arisen situation.

Forbearance represents restructuring caused by:

- the borrower's inability to fulfil its contractual obligations due to financial difficulties and
- the need of the Bank to make certain concessions to enable the borrower to service its liabilities.

Performing forbearance – represents starting category within forbearance principle and its granted in case of defined deterioration of client's financial position, i.e. his creditworthiness registered delay in payment of over 30 days in last 3 months before submition of request to reschedule loan or other non-compliance with terms from contract. Minimal period of validity of this status is 2 years during which client has to repay min % of total debt per year, and on the period end can't have delay of over 30 days (during this period delay must not exceed 90 days)

Performing forbearance under probation – is a subcategory within Forbearance status where client get transferred to from none performing forbearance or default forbearance status after monitoring period expires, in which following conditions must be met cumulatively: maximum delay during monitoring period, lack of default at end of period and compliance with agreed terms. Performing Forbearance under probation last for maximum 2 years, after it expires client will leave Forbearance status if he met all criterias.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Non-performing forbearance is granted in following situations:

- client fails to implement the final rescheduling after a period of 18 m from giving the status of "interim measures";
- the occurrence of any events of default which are not related to rescheduling during the forbearance performing status;
- delays over 30 days for client that is in Performing Forbearance under probation status
- If client who is in Performing Forbearance under probation status gets a new reschedule in 2nd year of status

Monitoring period for clients with NPF status lasts for one year after that, in case of fulfilment of defined terms, client gets into Performing forbearance under probation status.

Distressed reprogram / re-structuring (defaulted forbearance) is a form of restructuring that gives the client the status of default. This way covers the overall exposure (or its major part) and is always activated by a significant deterioration of the client's creditworthiness. Distress reprogram is granted whenever the client has a rating R at the moment of approval of the reprogram, when the client is not in employment (applies only to natural persons), and when the client is granted another reprogram, and less than 2 years have passed since the approval of the initial reprogram.

Temporary measures – these measures do not include final reschedule but mid step to it. It usually occurs in situations when there is a growing number of lenders with a specific client and requires a longer period of time due to internal processes and procedures of each creditor in order to define the final model of the restructuring (example - the situation when the resorts stand-still agreements or moratorium as a transitional solution to the final restructuring). The duration of interim measures is limited to 18 months.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The Bank continually reviews restructured loans to ensure the fulfilment of all criteria, as well as future payments or timely assignment of default status of a client who fails to comply with defined criteria.

Data on restructured loans at December 31, 2017:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans Total	Gross restructured loans Of which: problematic receivables	Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
Receivables from retail clients	**47,365,146**	**1,575,591**	**742,951**	**463,530**	**189,385**	**1.57**	**284,190**
Housing loans	25,359,666	661,519	442,664	260,854	114,017	1.75	283,080
Consumers and cash loans	19,445,288	772,354	280,277	189,359	67,433	1.44	1,109
Transactions and credit cards	797,249	29,018	-	-	-	-	-
Other receivables	1,762,943	112,701	20,010	13,317	7,934	1.14	-
Receivables from corporate clients *	**52,468,778**	**1,660,685**	**1,042,041**	**1,018,873**	**755,991**	**1.99**	**699,352**
Sector A	2,272,157	95,599	70,411	47,243	41,244	3.10	-
Sectors B, C and E	13,654,361	611,286	621,159	621,159	451,343	4.55	551,080
Sector D	5,670,638	79,830	-	-	-	-	-
Sector F	10,188,389	179,217	119,208	119,208	113,046	1.17	25,697
Sector G	10,587,707	474,556	224,072	224,072	148,919	2.12	115,384
Sector H, I and J	3,660,781	62,814	-	-	-	0.00	-
Sector L, M and N	6,434,746	157,383	7,191	7,191	1,440	0.11	7,191
Receivables from other clients	**10,455,527**	**702,569**	**320,813**	**315,188**	**275,508**	**3.07**	**278,381**
Total receivables	**110,289,451**	**3,938,845**	**2,105,804**	**1,797,591**	**1,220,884**	**1.91**	**1,261,923**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The Bank continually reviews restructured loans to ensure the fulfilment of all criteria, as well as future payments or timely assignment of default status of a client who fails to comply with defined criteria.

Data on restructured loans at December 31, 2016:

In RSD '000

			Gross restructured loans				
	Gross value of total receivables	Accumulated allowance for impairment	Total	Of which: problematic receivables	Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
Receivables from retail clients	**35,032,694**	**2,233,027**	**733,777**	**483,494**	**172,826**	**2,09**	**267,190**
Housing loans	16,358,431	537,581	444,292	266,328	79,890	2,72	266,463
Consumers and cash loans	15,533,677	1,360,438	262,263	196,261	77,534	1,69	727
Transactions and credit cards	867,191	76,620	-	-	-	-	-
Other receivables	2,273,395	258,386	27,223	20,905	15,402	1,20	-
Receivables from corporate clients *	**53,323,147**	**2,553,082**	**1,389,051**	**1,098,488**	**825,674**	**2,60**	**912,521**
Sector A	2,309,513	154,466	151,453	50,542	38,160	6,56	151,453
Sectors B, C and E	15,046,203	824,207	392,963	262,981	182,449	2,61	144,487
Sector D	5,871,950	101,380	-	-	-	-	-
Sector F	10,293,193	398,507	136,784	136,784	127,233	1,33	35,139
Sector G	9,119,934	761,217	678,370	618,700	462,628	7,44	561,744
Sector H, I and J	5,986,848	135,244	22,348	22,348	14,585	0,37	12,565
Sector L, M and N	4,695,506	178,062	7,133	7,133	618	0,15	7,133
Receivables from other clients	**10,463,076**	**1,607,456**	**685,611**	**675,292**	**535,022**	**6,55**	**454,889**
Total receivables	**98,818,917**	**6,393,565**	**2,808,438**	**2,257,274**	**1,533,521**	**2,84**	**1,634,600**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on changes on restructured loans at December 31, 2017:

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**733,777**	**273,968**	**154,729**	**(110,065)**	**742,951**	**553,567**
Household loans	444,292	130,404	93,689	(38,342)	442,664	328,648
Consumer and cash loans	262,263	134,037	56,734	(59,288)	280,277	212,844
Other receivables	27,223	9,527	4,305	(12,435)	20,010	12,075
Receivables from corporate clients	**1,592,923**	**55,765**	**526,574**	**(54,601)**	**1,067,513**	**296,327**
Large enterprises	-	-	-	416,085	416,085	101,115
Small and middle sized enterprises	1,180,141	10,281	330,165	(406,059)	454,198	86,318
Micro sized enterprises and entrepreneurs	237,845	45,484	35,183	(59,314)	188,832	104,648
Agriculture	13,711	-	-	(5,313)	8,398	4,246
Public enterprises	161,225	-	161,225	-	-	-
Other clients	**481,739**	-	-	**(186,398)**	**295,341**	**35,027**
Total receivables	**2,808,438**	**329,733**	**681,302**	**(351,064)**	**2,105,805**	**884,921**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on changes on restructured loans at December 31, 2016:

In RSD '000

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**386,447**	**437,490**	**71,123**	**(19,037)**	**733,777**	**560,952**
Household loans	238,755	239,328	27,801	(5,989)	444,292	364,402
Consumer and cash loans	97,721	197,180	21,860	(10,779)	262,263	184,729
Other receivables	49,971	983	21,462	(2,269)	27,223	11,821
Receivables from corporate clients	**1,646,710**	**372,952**	**154,648**	**(272,091)**	**1,592,923**	**585,664**
Small and middle sized enterprises	1,065,706	325,508	48,020	(163,052)	1,180,141	461,426
Micro sized enterprises and entrepreneurs	389,184	37,099	93,721	(94,717)	237,845	112,231
Agriculture	16,285	10,345	12,907	(12)	13,711	12,008
Public enterprises	175,535	-	-	(14,310)	161,225	-
Other clients	**257,456**	**434,035**	**174,034**	**(35,719)**	**481,739**	**128,301**
Total receivables	**2,290,613**	**1,244,478**	**399,806**	**(326,847)**	**2,808,438**	**1,274,917**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule at December 31, 2017:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**531,655**	**8,856**	**515,304**	**615,951**	**62,831**	**0**	**742,951**
Household loans	315,783	8,530	216,435	322,131	62,108	0	442,664
Consumer and cash loans	211,479	326	278,919	275,414	724	0	280,277
Transactions and credit cards	0	0	0	0	0	0	0
Other receivables	4,393	0	19,950	18,406	0	0	20,010
Receivables from corporate clients	**937,564**	**701,744**	**1,039,413**	**827,857**	**125,884**	**2,279**	**1,067,513**
Large enterprises	416,085	416,085	416,085	416,085	0	0	416,085
Small and middle sized enterprises	351,433	239,760	454,198	276,418	98,700	0	454,198
Micro sized enterprises and entrepreneurs	161,648	42,553	165,664	130,301	27,184	0	188,832
Agriculture	8,398	3,345	3,466	5,053	0	2,279	8,398
Public enterprises	0	0	0	0	0	0	0
Other clients	**295,341**	**295,341**	**295,341**	**295,341**	**295,341**	**295,341**	**295,341**
Total receivables	**1,764,560**	**1,005,941**	**1,850,058**	**1,739,149**	**484,056**	**297,620**	**2,105,805**

Review by reschedule measure is presented according to each of applied measures, regardless of whether any other measure was applied.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule at December 31, 2016:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**501,338**	**15,267**	**502,853**	**546,207**	**45,996**	**-**	**733,777**
Household loans	288,487	14,821	218,316	266,248	41,333	-	444,292
Consumer and cash loans	211,304	446	257,707	256,581	4,663	-	262,263
Transactions and credit cards	-	-	-	-	-	-	-
Other receivables	1,546	-	26,830	23,378	-	-	27,223
Receivables from corporate clients	**833,942**	**801,740**	**1,300,887**	**1,049,328**	**613,676**	**568,913**	**1,592,923**
Large enterprises	-	-	-	-	-	-	-
Small and middle sized enterprises	746,528	740,364	1,001,469	807,407	423,649	307,804	1,180,141
Micro sized enterprises and entrepreneurs	73,702	53,581	133,934	75,136	28,801	97,527	237,845
Agriculture	13,711	7,796	4,259	5,559	-	2,356	13,711
Public enterprises	-	-	161,225	161,225	161,225	161,225	161,225
Other clients	**434,035**	**434,035**	**481,739**	**479,487**	**-**	**-**	**481,739**
Total receivables	**1,769,315**	**1,251,043**	**2,285,478**	**2,075,022**	**659,672**	**568,913**	**2,808,438**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Loan concentration risk

Concentration risk represents a risk of incurring losses arising from the Bank's large exposure to a certain group of borrowers or a single borrower. Credit risk concentration arises when a significant number of borrowers belong to the same industry or the same geographic area, or have similar economic characteristic, are exposed to the same factors affecting their income and expenses, which may influence their contractual liability settlement in the event of changes in the economic, political or other circumstances that affect them equally. In order to create and maintain a safer loan portfolio and minimize the concentration risk, the Bank defines safety measures by determining maximum exposure levels and credit limits and by regular monitoring of the compliance with the limits set. Moreover, on a regular annual basis the Bank performs detailed and comprehensive analyses of credit risk (and other risk) concentration per different dimensions (exposure classes, industries, collaterals, products, etc.).

Bank manages concentration risk in credit portfolio through framework defined in Policy of concentration risk management, regulatory limit defined in Decision about Bank's risks management, internally defined limits and limits defined in Policy for exposure risks determination.

The Bank has defined monitoring of credit risk exposure in Policy of risk concentration management by following categories: concentration per class of exposure (Basel II exposure classes), concentration by client's rating, concentration of legal entities, Real estate and micro clients in industry sectors, concentration of exposure toward individual clients in total credit portfolio, portfolio of clients of legal entities, banks and governments, concentration of collateral, concentration per currencies and concentration per products. For purposes of determining the concentration of credit risk the Bank use Herfindahl-Hirschman Index (HHI) and Moody's matrix.

According to the Decision of the Bank's risk management, the Bank analyses the exposure to credit risk through the following two indicators:

- Exposure to a single entity or group of related entities, which may not be higher than 25% of its capital,
- The sum of large exposures, which may not be higher than 400% of its capital.

In addition, the Bank for monitoring an internal limit retained indicator that was previously defined by the regulations, and by whom exposures to related parties may not be higher than 20% of its capital.

Policy for determining exposure limits - the framework for customers / groups of customers, the Bank has defined monitoring concentrations of credit risk for corporate customers, financial institutions and the state at the following levels: maximum limit of exposure, the maximum exposure limit based on the rating and operating maximum limit of exposure.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at 31 December 2017:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	17,198,075	410,904	18,808,593	674,483	6,210,297	298,001	3,168,624	134,647	453,989	1,401	6,106	24
Household loans	11,478,867	209,464	9,542,436	365,807	2,422,224	151,157	1,069,363	68,099	46,193	-	6,055	-
Consumers and cash loans	5,210,635	167,627	7,979,112	253,033	3,368,872	123,022	1,899,887	55,661	386,049	1,391	-	-
Transactions and credit cards	145,052	5,080	467,842	9,677	108,698	3,331	51,401	2,101	4,066	-	-	-
Other receivables	363,522	28,731	819,203	45,966	310,503	20,491	147,973	8,786	17,682	11	52	24
Receivables from corporate clients *	24,439,136	633,126	16,516,621	470,216	6,312,160	115,254	3,801,005	180,430	830	0	0	0
Sector A	506,614	-	1,626,009	48,980	21,682	2	49,395	19,474	-	-	-	-
Sectors B, C and E	2,065,454	415,402	5,640,929	155,615	2,974,743	2,749	2,351,092	48,378	-	-	-	-
Sector D	2,697,882	-	271,985	-	2,032,087	-	668,683	-	-	-	-	-
Sector F	7,020,568	-	2,677,039	8,190	209,335	-	161,646	111,611	-	-	-	-
Sector G	4,967,537	133,149	3,832,045	210,092	840,996	111,994	491,065	-	830	-	-	-
Sector H, I and J	2,139,480	-	1,280,631	1,948	173,183	509	64,062	968	-	-	-	-
Sector L, M and N	5,041,601	84,575	1,187,984	45,390	60,135	-	15,062	-	-	-	-	-
Receivables from other clients	4,105,470	169,621	3,655,838	343,940	389,693	157,599	375,531	14,678	-	-	1,243,156	-
Total exposure	**45,742,681**	**1,213,651**	**38,981,053**	**1,488,639**	**12,912,151**	**570,854**	**7,345,160**	**329,756**	**454,819**	**1,401**	**1,249,263**	**24**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at 31 December 2016:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**10,703,887**	**649,967**	**14,439,865**	**985,209**	**5,006,888**	**435,766**	**2,336,521**	**198,017**	**266,228**	**1,870**	**8,464**	**12**
Household loans	6,026,950	232,081	7,014,390	397,691	1,705,729	164,726	722,678	72,027	13,744	-	8,414	-
Consumers and cash loans	4,070,506	334,216	5,954,633	462,921	2,776,574	220,610	1,371,208	100,529	240,712	1,768	-	-
Transactions and credit cards	146,477	13,044	496,411	31,118	115,430	6,279	51,800	4,261	2,342	29	-	-
Other receivables	459,953	70,626	974,431	93,479	409,155	44,151	190,836	21,200	9,430	73	50	12
Receivables from corporate clients *	**24,905,162**	**870,260**	**16,981,789**	**927,886**	**5,562,471**	**419,163**	**3,454,660**	**201,745**	**-**	**10**	**-**	**-**
Sector A	399,778	-	1,700,399	2,144	17,575	112,992	24,926	51,697	-	-	-	-
Sectors B, C and E	3,092,236	372,033	5,512,354	319,999	2,935,258	154,669	2,653,546	6,108	-	-	-	-
Sector D	2,833,475	-	982,019	-	1,569,964	-	486,492	-	-	-	-	-
Sector F	6,670,465	178,977	2,923,497	12,865	369,253	-	9,888	128,247	-	-	-	-
Sector G	3,332,403	164,037	4,206,825	511,643	516,305	150,800	226,745	11,165	-	10	-	-
Sector H, I and J	4,752,495	56,298	961,491	28,907	146,436	701	36,785	3,734	-	-	-	-
Sector L, M and N	3,824,309	98,916	695,203	52,328	7,680	-	16,278	793	-	-	-	-
Receivables from other clients	**3,518,737**	**748,613**	**3,358,654**	**794,650**	**727,706**	**180,097**	**152,547**	**153,511**	**-**		**828,562**	**-**
Total exposure	**39,127,786**	**2,268,841**	**34,780,308**	**2,707,745**	**11,297,065**	**1,035,025**	**5,943,728**	**553,274**	**266,228**	**1,880**	**837,026**	**12**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Credit-related Risks

Credit risk includes residual risk, dilution risk, settlement / delivery risk, counterparty risk and credit and foreign exchange risk. Bank risks related to credit risk beyond the same control processes and policies used for credit risk.

Counterparty Risk

The Bank operates with derivative financial instruments, which leads to its exposure to counterparty risk, the risk of counterparty non-fulfilment of obligations in the transaction before the final alignment of cash flows from the same transaction.

Derivatives' credit risk is limited by determining the maximum far value for each derivative financial instrument, having in mind their type, maturity and credit quality of clients.

34.3. Liquidity Risk and Financial Assets Management

Liquidity risk is the risk that the Bank would not be able to discharge its liabilities when they fall due. To reduce or to limit this risk, management has arranged diversified funding sources, manages assets considering their liquidity, and monitors Bank's future cash flows and liquidity on a daily basis.

This involves estimating expected RSD and foreign currency cash flows on daily basis and availability of highly liquid buffers that may be used to ensure additional funding, if required. The Bank manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their funds held with the Bank in accordance with agreed terms.

Liquidity risk management in the Bank is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Liquidity risk management process is organized through the Asset and Liability Management Committee ("ALCO"), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

ALCO and Operating Liquidity Management Committee ("OLC") are responsible for liquidity risk monitoring, management and recommending to the Executive Board measures and activities for liquidity maintenance, maturity matching, planning of funding reserves and other measures relevant to the financial stability of the Bank. ALM Unit and Market and Liquidity Risk Management Department monitor the liquidity ratio on a daily basis, so that it is maintained within the limits prescribed by NBS and the Bank's Liquidity Risk Management Policy and Contingency (Liquidity Crisis) Financing Plan ("LCFP"). In addition to monitoring this ratio, the liquidity risk management policy and LCFP define other ratios and their limits and persons/units in charge of monitoring of and reporting on those ratios. A brief summary of the liquidity ratios is presented every two-week at OLC meetings, and more frequently in case limits are exceeded or liquidity status is changed.

The Bank maintains a portfolio consisted of highly liquid securities and diversified assets that can be easily converted into cash in the event of unforeseen and negative oscillations in cash flows of the Bank. In addition, the Bank maintains the required level of obligatory dinar and foreign currency reserves, in accordance with the requirements of the National Bank of Serbia.

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Financial Assets Management (continued)

Liquidity level is expressed using the liquidity ration that represents the sum of first-class assets(cash balances, gold and other precious metals, funds held on accounts with other banks with assigned credit rating of a selected credit rating agency corresponding to credit rating quality 3 or higher, as determined in accordance with the Decision on Capital Adequacy, (investment rank), deposit held with NBS, cheques and other monetary receivables in settlement, irrevocable lines of credit approved to the Bank, shares and debt instruments quoted on the stock exchange, 90% of the fair value of securities denominated in RSD with no currency clause index, issued by the Republic of Serbia with minimum maturities of 3 months, i.e., 90 days, classified by the Bank as trading securities or securities available for sale) and second-class assets (other receivables maturing within a month) relative to the sum of liabilities per demand deposits or those without specified maturity (40% demand deposits due to banks, 20% demand deposits due to other depositors, 10% savings deposits, 5% guarantees and other sureties and 20% of undrawn irrevocable loan facilities) and liabilities with fixed contractual maturities within a month.

In addition to broader liquidity indicators, the Bank monitors and narrows the liquidity ratio.

The narrow liquidity ratio is the ratio of liquid assets of the First-Tier Bank, on the one hand, and collects the bank's obligation to see or without the agreed maturity and obligations of the bank with the agreed maturity within the next month from the date of calculation of the indicator, on the other.
`

During 2017 and 2016 the Bank had daily liquidity ratios above the legally prescribed level.

As of June 30, 2017, on the basis of the Decision on the Bank's liquidity management, adopted by the National Bank of Serbia, the banks are obliged to calculate and report on the value of the Indicator of Coverage with liquid assets (hereinafter PPLA) on a monthly basis. PPLA represents the ratio of the bank's liquidity layer to the bank and the net outflow of liquid assets that would arise during the next 30 days from the date of calculating this indicator under the assumed stress conditions. The Bank is obliged to keep PPLA, in all currencies, at a level not lower than 100%.

A set of policies and other internal acts adopted by the Managing and Executive Boards describe in more detail the issues of jurisdiction, methodology of calculation, limits and escalation. In addition to the defined regulatory limit, the Bank has established and monitors the internal limits for PPLA.

The Department for Market Risk Management and Liquidity Risk within the Strategic Risk Management Department is responsible for calculating the indicators. On December 31, 2017 and on December 31, 2016 Bank had PPLA ratio above prescribed limit.

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of the Bank's Financial Liabilities

The following table shows the Bank's most significant financial liabilities by maturity, as of December 31, 2017 and December 31, 2016 and is based on contractual undiscounted repayments.

The Bank expects that most of its depositors will not demand payment of deposits at the contractually defined maturity dates.

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2017
Liabilities per borrowings, deposits and securities	20,807,263	20,135,366	42,909,488	45,666,407	11,989,544	141,508,069
Subordinated liabilities	-	96,978	286,911	1,076,577	-	1,460,466
Total	**20,807,263**	**20,232,344**	**43,196,400**	**46,742,985**	**11,989,544**	**142,968,536**

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2016
Liabilities per borrowings, deposits and securities	20,361,771	21,545,528	32,563,558	39,900,610	11,011,950	125,383,417
Subordinated liabilities	-	105,095	311,314	1,535,165	-	1,951,573
Total	**20,361,771**	**21,650,623**	**32,874,872**	**41,435,775**	**11,011,950**	**127,334,991**

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of the Bank's Financial Liabilities **(continued)**

The table below provides the Bank's guarantees, letters of credit and other irrevocable commitments per maturities:

In RSD '000

2017	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2017
Contingent liabilities	804,154	498,480	2,291,039	4,421,168	4,363,004	220,085	12,597,930
Irrevocable commitments and letters of credit	9,187,841	136,759	674,876	3,482,742	7,922,839	3,227,864	24,632,921
Total	**9,991,995**	**635,239**	**2,965,915**	**7,903,910**	**12,285,843**	**3,447,949**	**37,230,851**

In RSD '000

2016	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2016
Contingent liabilities	288,049	187,672	1,571,984	3,984,921	2,026,646	138,711	8,197,983
Irrevocable commitments and letters of credit	45,581	84,093	430,349	4,721,418	7,090,084	1,437,418	13,808,943
Total	**333,630**	**271,765**	**2,002,333**	**8,706,339**	**9,116,730**	**1,576,129**	**22,006,926**

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of the Bank's Financial Liabilities **(continued)**

The Bank expects that not all contingencies and commitments would be withdrawn prior to expiry of their maturity.

For financing small and medium enterprises and small and medium infrastructure projects implemented by municipalities, the Bank has used the funds of the European Investment Bank ("EIB") and German Development Bank ("KfW").

The Bank has signed three agreements with EIB - in 2010, 2012 and in 2015 for the aggregate amount of EUR 125 million.

By signing a contract with the German Development Bank, KfW, at the end of 2012, the Bank provided funds in the amount of 10 million Euros for financing micro, small and medium enterprises and energy efficiency / renewable energy projects.

By signing a contract with the German Development Bank, KfW, signed in 2014, the Bank provided funds for the financing of micro, small and medium enterprises and energy efficiency / renewable energy projects in the amount of a total of EUR 30 million.

On December 3, 2015, the Bank signed a long-term loan agreement with Erste Group Bank AG for the financing of loans to legal entities in the amount of EUR 100 million. At the end of 2017, a new long-term loan contract was signed for an amount of 53 million euros.

At the end of 2017, the Bank signed a new contract with KfW in the amount of 23 million euros for financing energy efficiency and renewable energy.

At the beginning of 2018, a new contract with the EIB of EUR 50 million was signed for the needs of financing small and medium enterprises, as well as small and medium-sized infrastructure projects implemented by municipalities.

Signing a new contract with the EBRD is planned for the financing of energy efficiency projects in the housing sector.

The balance of loans received from foreign credit institutions in 2017 amounted to RSD 29,698,233 thousand (2016: RSD 22,582,767 thousand) (note 25).

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of the Bank's Financial Liabilities **(continued)**
Liquidity Gap Analysis – Financial Assets and Liabilities

The table below provides an analysis of the maturity matching/mismatching of assets and liabilities based on contractual terms of payment. Contractual maturities of assets and liabilities are determined based on the remaining period at the reporting date to the contractual maturity date. Maturity matching of financial assets and liabilities as of December 31, 2017 is based on the non-discounted contractual cash flows and presented as follows

In RSD '000

	Up to 14 days	15 days up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2017
ASSETS							
Cash and cash funds held at Central Bank	20,774,027	-	-	-	-	-	20,774,027
Financial assets at fair value held for trading through profit and loss	21,481	158,488	1,871,347	1,751,880	7,524,670	211,598	11,539,464
Financial assets held for sale	548,062	-	714,407	407,970	9,469,507	1,348,647	12,488,593
Financial assets held to maturity	-	-	-	1,790,337	4,910,962	1,583,153	8,284,452
Loans and receivables due from banks and other financial institutions	1,873,334	-	13,399	83,197	114,402	126,221	2,210,553
Loans and receivables due from customers	1,652,963	128,354	2,042,207	11,675,692	28,800,967	59,839,869	104,140,052
Other assets	279,967	2,304	4,858	12,947	14,471	10,068	324,615
Total assets	**25,149,834**	**289,146**	**4,646,218**	**15,722,023**	**50,834,979**	**63,119,556**	**159,761,756**
LIABILITIES AND EQUITY							
Financial liabilities at fair value held for trading through profit and loss	14,752	-	-	-	2,826	26,880	44,458
Deposits and liabilities due to banks and other financial institutions and NBS	5,234,931	2,323,139	3,373,501	4,922,584	16,454,650	13,261,626	45,570,431
Deposits and other liabilities to customers	65,109,561	1,522,273	7,387,218	14,255,364	2,600,668	1,107,044	91,982,128
Subordinated liabilities	-	-	85,173	253,870	1,015,480	-	1,354,523
Other liabilities	163,819	-	-	-	-	-	163,819
Total liabilities	**70,523,064**	**3,845,411**	**10,845,892**	**19,431,819**	**20,073,624**	**14,395,550**	**139,115,359**
Total equity	-	-	-	-	-	18,128,002	**18,128,002**
Total liabilities and equity	**70,523,064**	**3,845,411**	**10,845,892**	**19,431,819**	**20,073,624**	**32,523,552**	**157,243,361**
Liquidity GAP at:							
December 31, 2017	**(45,421,550)**	**(3,556,265)**	**(6,199,674)**	**(3,709,796)**	**30,761,355**	**30,596,004**	
December 31, 2016	**(32,766,081)**	**(4,864,773)**	**(11,550,302)**	**(374,739)**	**29,640,935**	**19,914,960**	

The maturity mismatch is the result of an increase in the volume of sight deposits compared to the planned funds for up to 14 days. The Bank monitors maturity compliance using statistical models of deferred sight deposits at expected maturities.

33. RISK MANAGEMENT (continued)

33.4. Market Risks

Market risk is the risk that changes in the value of balance sheet and off-balance sheet items arising from movements in market prices will have negative effects on the Bank's financial result and equity.

The Bank's operations are, among other risks, exposed to market risks, including foreign exchange risk, price risk on debt and equity securities and merchant banking risk.

The general price risk on debt securities is the risk of debit securities price changes due to changes in the general level of interest rates.

To calculate the capital requirements of the general price risk, the Bank applies the maturity method.

Maturity method is based on the classification of all net positions in debt securities into maturity classes or zones according to the outstanding maturity and coupon (interest) rate as per the table prescribed by the NBS Decision governing the Bank's capital adequacy.

The Bank calculates capital requirements for market risks arising from items of trading book using the methodology and guidelines prescribed by the NBS Decision governing the Bank's capital adequacy.

Market risk management in the Bank is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Market risk management process is organized through the Asset and Liability Management Committee ("ALCO"), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Market and Liquidity Risk Management Department. ALM Unit and Market Risk Management Department monitor foreign exchange ratio on a daily basis with ALM Unit reporting to ALCO on a monthly basis.

Furthermore, the Market and Liquidity Risk Management Department monitors and manages market risks through control of the set trading book limits, changes to the currently effective and definition of new limits and through assessment of the relevant risks arising from the introduction of new products and complex transactions.

There are two types of limits:
- VaR limit
- Limits of sensitivity (PVBP, CR01)

Value at Risk (VaR) measures the maximum expected loss of value of risk assets or portfolios during a predetermined holding period for a given confidence interval. The calculation of VaR is carried out using the historical simulation method with a one-sided confidence level of 99%, a one-day holding period and a two-year simulation period.
Exposure monitoring is done on a daily basis.

VaR in RSD '000	at 31. December 2017	at 31. December 2016
Interest risk	25,126	11,397
Foreign currency risk	9,090	119
Total	25,987	11,428

33. RISK MANAGEMENT (continued)

33.4. Market Risks (continued)

From January 1, 2017 on the Erste Group level, a new technical solution for the calculation of VaR was implemented. During the year 2017, there were methodological changes.

Two sensitivity limits, PVBP and CR01 are set.

Price Value of a Basis Point (PVBP) is the assumed change in the price of trading book positions due to the parallel shift of the yield curve by 1 basis point. The limit is defined by currencies (RSD, EUR, USD, and OTH) and at the total level.

Credit PV01 (CR01) is the assumed change in the value of securities due to the parallel shift of the credit spread by one basis point. Exposure is monitored at the level of an individual issuer for the entire portfolio of securities (trading book and bank book)

The mentioned limits are approved by the Bank's Executive Board, on the proposal of the Strategic Risk Management Department, and Erste Group's Market Risk Committee.

In case of exceeding the internally prescribed limits, the process of escalation and measures for returning to the limits of the limits are defined.

33.4.1 Interest Rate Risk

Interest risk is the risk of an adverse impact on the Bank’s financial result and capital due to changes in market interest rates. The Bank is exposed to this risk based on items from the banking book, and it assesses the aforementioned risk in the aggregate and per each significant foreign currency for whose definition it has established criteria. In accordance with these criteria, the Bank considers RSD and EUR to be materially significant currencies.

In determining interest rates the Bank considers market interest rates and their movements to which the Bank’s interest rates are regularly adjusted. Interest rate changes result in increases or decreases in interest margins. Interest risk management has as its goal optimization of this influence, increasing the net interest revenue on one end and economic value of equity on the other.

ALCO manages maturity matching of assets and liabilities based on the Group’s guidelines, macroeconomic analyses and forecasts, forecasts of the liquidity, analyses and forecasts of interest rate market trends for different segments of assets and liabilities.

33. RISK MANAGEMENT (continued)

33.4. Market Risks (continued)

33.4.1 Interest Rate Risk (continued)

The following table shows the bank's exposure to the interest rate risk (Repricing Gap) as of December 31, 2017. Assets, liabilities, and currency swaps as off-balance sheet items are categorized by the earlier of interest repricing date and maturity date.

In RSD '000

Category	Within a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over a year	Total non-interest bearing	Total
Cash	-	-	-	-	-	2,798,893	2,798,893
Correspondent accounts	-	-	-	-	-	1,151,048	1,151,048
Obligatory reserve	7,002,670	-	-	-	-	9,293,751	16,296,421
Securities	11,474,801	1,219,625	1,513,050	685,255	17,313,384	-	32,206,115
Loans due from banks	693,809	-	-	-	-	-	693,809
Loans due from customers	85,902,387	2,192,400	2,048,385	1,770,226	12,333,872	-	104,247,270
Other assets	-	-	-	-	-	4,527,449	4,527,449
Total balance sheet assets	**105,073,666**	**3,412,025**	**3,561,435**	**2,455,482**	**29,647,255**	**17,771,142**	**161,921,005**
FX Swaps	2,432,484	-	-	-	-	-	2,432,484
Total assets	**107,506,150**	**3,412,025**	**3,561,435**	**2,455,482**	**29,647,255**	**17,771,142**	**164,353,489**
Liabilities to financial institutions	12,316,064	8,747,666	14,376,878	371,956	3,509,473	-	39,322,037
AVISTA deposits	4,949,671	9,899,342	14,849,013	6,781,951	24,932,457	-	61,412,435
Term deposits	6,005,748	8,248,163	6,529,252	10,398,750	5,379,743	-	36,561,655
Other liabilities	-	-	-	-	-	3,694,503	3,694,503
Equity	-	-	-	-	-	20,930,375	20,930,375
Total balance sheet liabilities and equity	**23,271,483**	**26,895,171**	**35,755,143**	**17,552,658**	**33,821,672**	**24,624,878**	**161,921,005**
FX Swaps	2,445,342	-	-	-	-	-	2,445,342
Total liabilities and equity	**25,716,826**	**26,895,171**	**35,755,143**	**17,552,658**	**33,821,672**	**24,624,878**	**164,366,347**
Net interest risk exposure at December 31, 2017	**81,789,325**	**(23,483,146)**	**(32,193,708)**	**(15,097,176)**	**(4,174,417)**	**(6,853,736)**	**(12,858)**
Net interest risk exposure at December 31, 2016	**74,479,559**	**(27,478,626)**	**(20,928,661)**	**(19,200,361)**	**(2,480,831)**	**(4,325,450)**	**65,630**

33. RISK MANAGEMENT (continued)

33.4. Market Risks (continued)

33.4.1 Interest Rate Risk (continued)

Interest rate risk is also monitored by sensitivity analysis - scenario analysis, i.e. by observing the effect of interest rate fluctuations on the Bank's income and expenses.

The following table presents the income statement's sensitivity to the reasonably anticipated changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of assumed changes in interest rates on the net interest income in one year and on financial assets and liabilities based on interest rates as at December 31, 2017 and 2016.

In RSD '000

Currency	Changes in percentage points	Income statement sensitivity 2017	Changes in percentage points	Income statement sensitivity 2016
Increase in percentage:				
RSD	1%	161,123	1%	127,015
EUR	1%	341,201	1%	241,738
Decrease in percentage:				
RSD	1%	(164,677)	1%	(127,017)
EUR	1%	(409,916)	1%	(201,393)

33.4.2. Foreign Exchange Risk

Foreign exchange risk is the risk of change of the value of financial instruments and adverse effects on the Bank's financial result and equity due to the fluctuations in foreign exchange rates. Banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

The Bank manages foreign exchange risk striving to prevent adverse effects of changes of cross- currency rates and foreign exchange rates to RSD (foreign exchange losses) on the Bank's financial result, as well as on the customers' ability to repay loans in foreign currencies.

For the purposes of protection against the foreign exchange risk, the Bank monitors the changes in foreign currency exchange rate on the financial market on a daily basis, carries out the policy of low-level exposure to foreign exchange risk and contracts loans with a foreign currency clause index with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign exchange risk, as well as risk per specific currency. The Market and Liquidity Risk Management Department daily monitor movements of the foreign exchange ratio and internally set foreign currency positions per currency. Positions are monitored on a daily basis to ensure that positions are maintained within established limits.

In accordance with the National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position - foreign exchange risk indicator within maximum regulatory limits, determined relative to the capital, based on which the Bank is obligated to ensure that its total net open foreign currency position does not exceed 20% of its regulatory capital.

33. RISK MANAGEMENT (continued)

33.4. Market Risks (continued)

33.4.2. Foreign Exchange Risk (continued)

In 2017, the Bank continuously monitored the compliance of foreign exchange risk indicators, whereby the above indicator was at a level within the prescribed limit. At the end of each working day, the Bank's foreign currency exposure indicator was not more than 20% higher than the Bank's capital.

The following table shows the currencies in which the Bank has significant exposure on 31 December 2017 and 31 December 2016 of its monetary assets and liabilities that are not traded.

The above analysis calculates the result of reasonably possible currencies exchange rates relative to the RSD with constant maintenance of other variables. Negative amounts in the table represent a potential decrease in the performance balance, i.e. gain or capital, while positive amounts represent potential increases.

Risk of changing foreign exchange rates

In RSD ‘000

Currency	Changes in currency rate (depreciation in %) 2017	Effect on profit and loss before taxes 2017	Changes in currency rate (depreciation in %) 2016	Effect on profit and loss before taxes 2016
EUR	2%	16,511	2%	2.673
CHF	2%	285	2%	142
USD	2%	30	2%	269

The following table presents the Bank’s exposure to foreign exchange risk as at December 31, 2017. The table includes assets and liabilities at their carrying amounts.

33. RISK MANAGEMENT (continued)

33.4. Market Risks (continued)

33.4.2. Foreign Exchange Risk (continued)

In RSD '000

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
ASSETS							
Cash and cash funds held at Central Bank	10,151,379	71,119	118,959	140,305	**10,481,762**	10,292,265	**20,774,027**
Financial assets at fair value held for trading through profit and loss	6,909,319	-	-	-	**6,909,319**	4,630,145	**11,539,464**
Financial assets held for sale	6,803,611	172,631	-	-	**6,976,242**	5,512,351	**12,488,593**
Financial assets held to maturity	465,848	-	-	-	**465,848**	7,818,604	**8,284,452**
Loans and receivables due from banks and other financial institutions	543,649	1,443,877	2,942	213,129	**2,203,597**	6,956	**2,210,553**
Loans and receivables due from customers	78,272,553	467,268	957,498	-	**79,697,319**	24,442,734	**104,140,053**
Investments in subsidiaries	-	-	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	-	-	247,298	**247,298**
Property, plant and equipment	-	-	-	-	-	1,070,689	**1,070,689**
Fixed assets held for sale and assets of discontinued operations		-	-	-	-	11,901	**11,901**
Other assets	51,740	216	3,036	-	54,992	1,005,423	**1,060,415**
Total assets	**103,198,099**	**2,155,111**	**1,082,435**	**353,434**	**106,789,079**	**55,131,926**	**161,921,005**
LIABILITIES AND EQUITY							
Financial liabilities at fair value held for trading through profit and loss	29,708	-	-	-	**29,708**	14,750	**44,458**
Deposits and liabilities due to banks and other financial institutions and NBS	39,683,169	49,121	663,341	29,508	**40,425,139**	5,145,292	**45,570,431**
Deposits and other liabilities to customers	57,970,402	3,280,640	1,279,027	461,927	**62,991,996**	28,990,132	**91,982,128**
Subordinated liabilities	1,354,523	-	-	-	**1,354,523**	-	**1,354,523**
Provisions	-	-			-	752,742	**752,742**
Current tax liabilities	-	-	-	-	-	160,965	**160,965**
Deferred tax liabilities	-	-	-	-	-	5,248	**5,248**
Other liabilities	240,641	1,001	1,477	100	**243,219**	912,728	**1,155,947**
Total liabilities	**99,278,443**	**3,330,762**	**1,943,845**	**491,535**	**105,044,585**	**35,981,857**	**141,026,442**
Total equity	-	-	-	-	-	20,894,563	**20,894,563**
Total liabilities and equity	**99,278,443**	**3,330,762**	**1,943,845**	**491,535**	**105,044,585**	**56,876,420**	**161,921,005**
Net foreign currency position at:							
– December 31, 2017	**3,919,656**	**(1,175,651)**	**(861,410)**	**(138,101)**	**1,744,494**		
– December 31, 2016	**2.457.854**	**(2,266,773)**	**(302,971)**	**(123,232)**	**(235,122)**		

33. RISK MANAGEMENT (continued)

33.5. Bank’s Risk Concentration

This is a risk of the Bank's exposures to a single entity or a group of related entities and exposures to an entity related to the Bank.

Monitoring the exposure risk is mandatory part of the procedures in the loan approval stage in the sense that a committee that approves a loan has at its disposal information on the total Bank's exposure to a customer or a group of related customers relative to the Bank's capital.

During 2017, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its loans and receivables and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 30(b)) and with the internal limits.

In accordance with the Risk management policies, the Bank’s management approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related entities, and parties related to the Bank.

The procedures of exposure risk management are the subject of internal audit and the compliance function.

33.6. Bank's Investment Risks

The Bank’s investment risks include the Bank’s equity investments held in other entities and investments made into the Bank's own fixed assets.

In accordance with the National Bank of Serbia legislation, the level of the Bank’s investment and the level of regulatory capital is being monitored in order to ensure that the Bank’s investments in a single non-financial sector entity do not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in tangible assets cannot exceed 60% of its regulatory capital.

The Bank’s investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organizational unit or the Bank’s body competent for procurement of tangible assets and investing in legal entities familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.

During 2017, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

The procedures of exposure risk management are subject to internal audit and the compliance control function.

33. RISK MANAGEMENT (continued)

33.7. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Bank is exposed to and includes adverse effects which may influence the financial result and capital of the Bank, as the Bank might not be able to collect receivables from this counterparty, as a result of political, economic or social situation in the country of its origin.

The Bank mostly approves funds to the customers from the Republic of Serbia, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign banks.

The Bank monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings.

The Bank's exposure to the country risk is low, due to insignificant participation of non-residents in the total loan portfolio of the Bank.

33.8. Operational Risk

Operational risk is the risk of the adverse effects on the Bank's financial result and equity due to failures in the employees' performance, inadequate internal procedures and processes, inadequate information and other systems in the Bank or unforeseen external events.

The Bank has established a comprehensive system of managing operational risk through the identification and recording, evaluation and monitoring of operational risks in all material products, activities, processes and systems. Operational risk management is the responsibility of all employees of the Bank.

Committee for Operational Risk Management of the Bank, in addition to an independent department for operational risk management and other control functions, actively contributes to the improvement of operational risk management function.

Reporting system for operational risk events is used for early identification of operational risk events, while the approximation process provides completeness, coherence and comprehensiveness of operational risk events that have occurred in the Bank. Operational risk events are collected in a single database and further analysed and monitored. Also, the Bank collects and external data on operational risk events.

The Bank manages the risk by increasing the awareness of the employees of operational risk management, implementation of the solid system of controls and monitoring and adequate prevention and detection of corrective measures in order to decrease the level of operational risk to the acceptable level.

The Bank has defined and regularly reviews and updates internal acts which govern the Bank's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

The Bank is insured from the usual risks and specific banking risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Bank's internal and external frauds, technological risks and civil responsibility.

Continuous assessment of risk arising in the process of introducing new products / services as well as activities, that occur when entrusting third parties is carried out. Improvement of internal control mechanisms is necessary element in all operational risk management activities.

The Bank calculates capital requirements under Pillar 1 for operational risk using the basic indicator approach under Pillar 2 while applying advanced approach using an internal model.

33. RISK MANAGEMENT (continued)

33.9. Capital Management

The Bank permanently manages its capital, which is a broader concept than "capital" on the face of the balance sheet, in order to:

- comply with the capital requirements set by the National Bank of Serbia;
- to ensure that the level and composition of capital that can support the expected growth in placements;
- ensure the possibility of a long-term going concern of operations with providing of profit to shareholders and benefits to other stakeholders; and
- provide a solid capital base to support the development of its business.

The Bank manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Bank's operations. The Bank's management monitors regularly the Bank's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on the achieved values of ratios.

The Law on Banks and relevant decisions of the National Bank of Serbia stipulate that banks must maintain a minimum amount of capital of EUR 10 million in dinar equivalent according to the official middle exchange rate, an indicator of capital adequacy of at least 8%, an indicator of the capital adequacy of at least 6% and an indicator of the adequacy of the basic share capital of at least 4.5%, as well as to harmonize the scope and structure of its operations with the indicators of operations prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia" No. 45/2011, 94/2011, 119/2012, 123/2012 and 23/2013 - other decisions, 43/2013 and 92/2013, 33/2015, 61/2015, 61/2016, 103/2016 and 119/2017) and the Decision on capital adequacy ("Official Gazette of the RS", no. 103/2016).

The aforementioned Decision of the National Bank of Serbia on the adequacy of the bank's capital determines the method of calculating the capital of the Bank and the indicators of its adequacy. The total capital of the Bank consists of basic and supplementary capital and defined deductible items, while risky balance and off-balance sheet assets are determined in accordance with the prescribed risk weight for all types of assets.

The capital of the bank is the sum of the basic and additional capital, where the basic capital makes the sum of the basic share capital and additional share capital. The capital adequacy ratio of the Bank is equal to the ratio of the bank's capital and the collection of credit risk weighted assets, the capital requirement for price risk from the activities in the book of trade multiplied by the reciprocal value of the capital adequacy ratio (prescribed 8%), the capital requirement for foreign exchange risk multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for the risk of adjusting the credit exposure multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy ratios and the risk weighted exposure for the risk of the counterparty..

The Bank conducts a process of internal capital adequacy assessment process (ICAAP), determines available internal capital and makes its distribution, and develops a strategy and plan for capital management in accordance with the Decision on Risk Management.

In accordance with the Law on Banks and Decision on the Recovery Plan for the Bank and Banking Group, (Official Gazette of RS no. 71/2015) the Bank prepared and submitted to the National Bank of Serbia the Recovery Plan, which is vital for the achievement of the Bank's financial resilience and achievement of stability on the event of severe financial disorders.

33. RISK MANAGEMENT (continued)

33.9. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as at December 31, 2017 as well as the capital adequacy ratio:

	In RSD '000
	31.12.2017
Basic capital	
Basic share capital	
The amount of the basic share capital paid	10,040,000
Related emission premium with basic equity instruments	124,475
Profit from the current period that meets the requirements for inclusion in the share capital	1,442,454
Revaluation reserves and other unrealized gains	495,357
Unrealized losses	(77,334)
Other reserves	7,679,825
Additional value adjustments	(24,073)
Other intangible assets before deduction for related deferred tax liabilities	(247,298)
	19,433,406
Supplementary capital	
Subordinated obligations	572,575
	572,575
Capital:	**20,005,981**
Risky balance and off-balance assets	
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	7,481,334
Capital requirement for price risk	177,449
Capital requirement for foreign exchange risk	68,222
Capital requirement for operational risk	1,084,684
Capital requirement for the risk of adjusting credit exposure	13,102
Adequacy of basic share capital	**17.62**
Adequacy of share capital	**17.62**
Capital adequacy	**18.14**

The Bank is in compliance with all regulatory requirements regarding capital adequacy at all levels.

33. RISK MANAGEMENT (Continued)

33.9. Capital Management (continued)

Reserve for estimated losses that may arise on the basis of balance sheet assets and off-balance sheet items is determined in accordance with the Decision of the National Bank of Serbia on classification of balance sheet assets and off-balance sheet items of the bank ("Official Gazette of the Republic of Serbia", No. 94/2011, 57/2012, 123 / 2012 43 / 2013,113 / 2013, 135/2014, 25 / 2015,38 / 2015, 61/2016, 69/2016, 91/2016, 101/2017 and 114/2017).

Calculation of reserves for estimated losses is carried out in order to cover the estimated losses on the basis of balance sheet assets and off-balance sheet items. The calculation of the reserve for estimated losses is based entirely on the criteria and rules defined in the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items.

The classification of debtors' claims into categories A to D is performed on the basis of the following groups of criteria:

• assessment of the financial condition, i.e. the creditworthiness of the borrower;
• timely settlement of debtor's obligations;
• other specific criteria (restructured receivables, newly established companies and claims based on project financing, promptness of the loan dossier, real estate acquired through collecting receivables, etc.)
• the quality of collateral.

Based on the classification of receivables, in accordance with the aforementioned Decision of the National Bank of Serbia, the reserve for estimated losses is calculated using the following percentages on balance sheet receivables and off-balance sheet items that are classified: A (0%), B (2%), V (15%) , G (30%) and D (100%).

In order to calculate the required reserve for estimated losses, the Bank deducts the estimated loss reserves according to the Decision of the National Bank of Serbia for the correction of the balance sheet assets and provisions for losses on off-balance sheet items disclosed at the expense of expenses in the income statement. All positive differences will represent the necessary reserve for estimated losses on balance sheet assets and off-balance sheet items. In accordance with the Decision on Capital Adequacy of the Bank, the required reserve for estimated losses is considered a deductible item of equity, except in cases when the condition from item 34a of the Decision on classification of balance sheet assets and off-balance sheet items of the bank ("Official Gazette of the Republic of Serbia" No. 94 / 2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017 and 114/2017). In accordance with the above, the Bank dated March 31, the required reserve requirement for the estimated losses is not treated as a deductible item of capital.

33.10. Fair Value of Financial Assets and Liabilities

The fair value calculation in EBS is based primarily on external source data (listing of dealers for government bonds and available stock prices from the stock exchange). OTC derivatives are valued using the model. By using the model, bonds are also valued if there is no adequate number of quotations or quotations are not up-to-date.

Evaluation model

Bonds

Bonds for which quotations are not available in an adequate number or quotation are not sufficiently up to date are discounted by future cash flows using a predefined curve for the respective currency.

33. RISK MANAGEMENT (Continued)

33.10. Fair Value of Financial Assets and Liabilities (continued)

OTC derivatives
Valuation is aimed at discounting future cash flows using defined yield curves for a particular product and a specific currency. The derivative value thus obtained is adjusted for the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA), as the credit default of the other counterparty and its own credit risk are not taken into account. CVA refers to credit risk adjustment of other agreements of the parties, while DVA refers to adjusting for own credit risk. The value of these adjustments depends on PD, LGD and exposure (NPV).

Hierarchy of instruments that are valued at fair value

In accordance with IFRS 13, the EBS quarterly allocates appropriate levels to all positions in assets and liabilities that are valued at fair value or whose fair value must be disclosed in notes to the financial statements. Levels are allocated depending on how the market value of the instrument is derived. There are 3 levels.

Level 1
The fair value of financial instruments assigned to Level 1 hierarchy is determined on the basis of market quotations. The fair value determined on the basis of quotations can be Level 1 if the frequency and scope of trading is satisfactory and there is price consistency.

Level 1 classifies derivatives traded on an organized market, as well as stocks and bonds for which there is an active market.

Level 2
Instruments for which there are market quotations, but whose market can not be considered active due to limited liquidity, are classified as Level 2. If market quotations are not available, fair value is determined using a valuation model (discounting future cash flows), and all parameters for the model (yield curves, spurs) are available on the market, Level 2 is also assigned.

OTC derivatives and less liquid stocks and bonds are classified as Level 2 instruments.

Level 3
Instruments whose fair value is determined on the basis of quotations that are not sufficiently up-to-date or by using a model whose all inputs are not commercially available are classified as Level 3 hierarchy. Market unavailable parameters are most often related to credit spreads that are derived from internally calculated measures - PD and LGD.

Shares for which there are no quotations, illiquid bonds, as well as loans and deposits are classified as Level 3.

33. RISK MANAGEMENT (Continued)

33.10. Fair Value of Financial Assets and Liabilities (Continued)

The following table shows fair values of financial instruments recognized at fair value in the financial statements:

In RSD '000

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS	**9,186,810**	**13,275,013**	**1,566,234**	**24,627,651**	**1,144,215**	**18,387,062**	**678,792**	**20,2210,069**
Financial assets held for trading	**5,237,855**	**5,946,575**	**355,033**	**11,858,356**	**577,001**	**11,811,358**	**659,998**	**13,048,357**
Republic of Serbia Treasury bills	4,976,963	5,881,910	355,033	**11,518,185**	319,405	11,612,220	659,998	**12,591,623**
Government bonds of Republic of Montenegro	260,892	-	-	**271,979**	257,596	-	-	**257,596**
EBRD bonds	-	-	-	**-**	-	60,380	-	**60,380**
Derivatives	-	64,665	-	**68,192**	-	138,758	-	**138,758**
Financial assets available for sale	**3,948,955**	**7,328,438**	**1,211,201**	**12,769,295**	**567,214**	**6,575,704**	**-**	**7,161,712**
Republic of Serbia Treasury bills	3,934,915	7,267,013	1,183,444	**12,685,854**	555,965	6,516,415	-	**7,072,110**
EBRD bonds	-	60,378	-	**60,534**	-	59,289	-	**59,289**
Quoted shares	14,040	1,047	-	**15,087**	11,519	-	654	**12,173**
Shares that are not quoted	-	-	27,757	**7,820**	-	-	18,140	**18,140**
FINANCIAL LIABILITIES	**-**	**44,458**	**-**	**44,458**	**-**	**54,690**	**-**	**54,690**
Financial liabilities at fair value through profit and loss held for trading	-	44,458	-	**44,458**	-	54,690	-	**54,690**

33. RISK MANAGEMENT (continued)

33.10. Fair Value of Financial Assets and Liabilities (continued)

In level 3 is one RS bond with ISIN RSMFRSD56740 was issued on December 25, 2017. The bank bought EUR 13 million (HFT EUR 3 million + AFS EUR 10 million).

The valuation method is defined for each bond in the front office system of the bank, within the scope for the given bond. When initially entered in the system, the bond is valued on the basis of the corresponding yield curve (depending on the currency). Subsequently, checking whether there are adequate quotations for individual bonds (in terms of the number of available quotes and the dynamics of price updates) available on Reuters. If there are adequate quotations, the valuation method in Kondor is changed and the bond is valued on the basis of quotations rather than using the yield curve.

The bond is therefore initially valued through the yield curve. And shortly the valuation method has changed and now quotes are quoted from Reuters directly for that bond. But given that the bond was emitted at the end of the year (five working days before the end of the year), the valuation method for the end of the year remained the same as initially defined. It was subsequently changed when banks began to quote the price and when it was estimated that quotations were adequate. This ISIN is by no means specific in relation to other RS bonds

The table below shows the comparison, by classes, the carrying amount and fair value of financial instruments that are not recognized at fair value in the financial statements. The table does not include the fair value of non-financial assets and non-financial liabilities.

In RSD '000

	2017		2016	
FINANCIAL ASSETS	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Securities held to maturity	8,284,452	8,284,452	8,635,103	8,635,103
Loans and receivables due from banks	2,210,553	2,210,681	1,211,779	1,211,779
Loans and receivables due from customers	104,140,053	113,300,220	91,213,573	97,329,655
Construction objects	474,059	474,059	481,414	481,414
Investment property	-	-	232,417	232,417
Fixed assets intended for sale	11,902	23,886	56,294	56,294
FINANCIAL LIABILITIES				
Deposits due to banks	45,570,431	47,579,668	36,709,919	37,199,480
Deposits due to customers	91,982,128	92,617,344	84,903,330	83,845,758

The calculation of the fair value of financial instruments that are not recognized at fair value in the financial statements is carried out using the QRM as a standard of Erste Group.

The fair value of loans to customers and credit institutions is calculated by discounting future cash flows taking into account the effects of interest and credit spreads. The effect of interest rate changes is calculated on the basis of market interest rates, while changes in credit are derived from PDs and LGDs used for internal risk quantification. For the purposes of calculating fair value, loans are grouped into homogeneous portfolios based on the rating method, rating and residual maturity.

The fair value of the deposit is assessed on the basis of market conditions as well as its own credit risk. For demand deposits, book value is the lowest possible fair value.

In 2017, there were no reclassifications within the financial asset position.

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Bank has executed operating lease contract on the lease of computer equipment and automobiles used by the Bank.

The minimum future payments of non-cancellable operating lease liabilities are presented in the table below

		In RSD '000
	at 31 December 2017	at 31 December 2016
Within a year	30,133	35,975
From 1 to 5 years	53,257	38,981
	83,390	**74,956**

(b) Litigation

As at 31 December 2017, the Bank had 133 initiated litigations in the total amount of RSD 1,598,141 thousand in which it had the status of the sued party (December 31, 2016: RSD 334,830 thousand). The default interest based on disputes against the Bank amounts to RSD 171,318 thousand (December 31, 2016: RSD 214,278 thousand).

Based on the assessment of the legal representatives of the Bank in the above mentioned disputes, the Bank made a provision in the amount of RSD 175,182 thousand (RSD 164,287 thousand as of 31 December 2016), for disputes that are expected to fall at the Bank's expense on this date.

34. COMMITMENTS AND CONTINGENT LIABILITIES

(c) Taxation Risks

The Republic of Serbia tax legislation is in the process of ongoing reviews and changes occur frequently. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Bank's management believes that the Bank's tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

35. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

In accordance with Article 18 of the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors and has valid documentation thereof.

The Bank sent its customers outstanding item statements (OIS) as of October 31, 2017 in total amount of RSD 118,697,373 thousand. Confirmed receivables amounted to RSD 106,905,234 thousand.

The amount of disputed receivables amounted to RSD 31 thousand and the Bank is in contact with clients in order to resolve conflicts.

The amount of unconfirmed OIS amounted to RSD 11,792,109 thousand because of incorrect address – Client moved to another address without reporting it to Bank or client does not exist on address reported to APR or Bank.

The Bank is still working on reconciliation of OIS for which replies were not received.

36. SEGMENT REPORTING

Management of the Bank views operating segments in accordance with the methodology and segmentation defined at the entire Erste Group level and, on such basis, makes decisions in respect of, allocates resources to and assesses performance of individual segments. The report on segment results is aligned with FINREP methodology for financial reporting used within Erste Group where there are departures in certain items from the result as stated under the local NBS methodology.

a) *Structure of Operating Segments*

Segment report is comprised of six basic segments reflecting the governance structure of Erste Bank a.d., Novi Sad.

b) *Definition of Operating Segments*

Retail Segment

This segment comprises business activities within the scope of responsibilities of the Sales Managers from the Sales Network of the Retail Department. Target customers are mostly individuals, entrepreneurs and freelance professionals. Operations of the segment are mostly managed by the Bank, which is focused on the simplicity of products offered – investment products, current accounts, savings, credit cards and additional products such as leases, insurance, and social security products.

Small and Medium Enterprises (SME)

This segment includes legal entities within the scope of responsibilities local corporate commercial centres, mostly comprised of companies with annual turnover of EUR 1 million to EUR 50 million. In addition, there are clients performing public activity or participating in the work of the public sector.

Commercial Reals Estate Funding (CRE)

This segment refers to operations involving investments in real estate for the purpose of generating income from lease out of certain properties or entire real estate complexes, development and construction of properties and complexes for realization of capital gains through the sale of individual constructed properties and property complexes, services of asset management, construction services and construction for the Bank's own purposes.

36. SEGMENT REPORTING (continued)

Large Corporate Clients (LC)

This segment includes clients with consolidated annual turnover above EUR 50 million.

Financial Markets Segment (GM)

This segment involves activities comprised of trading and market service rendering. Trading and market services are activities related to the risk assumption and management within the Bank's trading book for the purposes of market creation, short-term liquidity management, custody operations, commercial operations and all other activities performed in the capital market. Specific income and gains on the fair value adjustment that are not directly related to the client transactions (which may also be operations of matching assets and liabilities) and general risk premiums as fees for the work done also belong to this segment.

Other

This segment encompasses all the activities of asset and liability management and internal service rendering on a non-profit basis. It also includes the Bank's available capital (defined as the difference between the total average capital in accordance with IFRS and average economic capital allocated to the operating segments).

37. SEGMENT REPORTING (continued)

	Retail		SME		Commercial real estate funding		Large corporate clients		Financial markets		Other		Bank	
In RSD '000	**12.2017**	**12.2016**	**12.2017**	**12.2016**	**12.2017**	**12.2016**	**12.2017**	**12.2016**	**12.2017**	**12.2016**	**12.2017**	**12.2016**	**12.2017**	**12.2016**
B. Profit and loss statement														
Net interest income	3,941,120	3,407,949	1,317,847	1,201,771	496,000	491,792	446,785	544,905	236,559	281,907	(233,336)	(109,732)	6,204,975	5,818,591
Dividend income	-	-	-	-	-	-	-	-	-	-	249	401	249	401
Net result from equity method investments	-	-	-	-	-	-		-	-	-	-		-	-
Rental income from investment properties and other operating lease	-	-	2,488	2,054	-	-	8,445	28,169	-	-	2,323	9,365	13,256	39,588
Net fee and commission income	1,068,915	1,042,097	319,832	277,148	14,689	23,297	134,330	130,678	26,891	22,339	(178,502)	(119,094)	1,386,154	1,376,466
Net trading result and the adj. to FV	131,531	101,821	39,833	30,449	10,800	10,528	10,191	10,271	223,357	192,539	97,980	59,264	513,691	404,872
General administrative expenses	(4,172,072)	(3,782,307)	(668,020)	(593,439)	(107,206)	(77,059)	(226,621)	(225,125)	(118,248)	(104,716)	(65,646)	(68,624)	(5,357,813)	(4,851,270)
Net loss on impairment of fin. assets not measured at fair value through profit or loss	(234,218)	(204,024)	137,986	(398,910)	66,856	2,757	203,537	65,204	(0)	(287)	(43,151)	(4,418)	131,010	(539,678)
Realised gains/losses from financial institutions that are not measured at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains / losses on financial assets and financial liabilities not measured at fair value through profit and loss, net	4,563	1,487	42,533	-	-	-	-	-	-	-	11,541	15,874	58,636	17,361
Net impairment losses on investments and non-financial institutions that are not measured at fair value through profit and loss	(1,666)	(1,533)	1	(1)	(0)	-	(0)	(0)	-	-	(7,501)	47,854	(9,167)	46,320
Other operating result	31,641	(13,548)	(55,789)	5,200	(5,300)	(893)	4,375	(33,164)	(2,628)	(697)	(77,068)	(109,111)	(104,769)	(152,212)
Profit before tax from regular activities	**769,812**	**551,944**	**1,136,710**	**524,271**	**475,839**	**450,423**	**581,042**	**520,939**	**365,930**	**391,084**	**(493,111)**	**(278,222)**	**2,836,222**	**2,160,439**
Income tax	(55,364)	(23,638)	(81,757)	(22,453)	(35,337)	(20,050)	(40,666)	(21,550)	(26,317)	(16,749)	35,463	12,050	(203,980)	(92,391)
Profit/loss for the year	**714,448**	**528,306**	**1,054,953**	**501,819**	**440,502**	**430,373**	**540,376**	**499,389**	**339,613**	**374,335**	**(457,649)**	**(266,173)**	**2,632,243**	**2,068,048**
Net result attributable to minority interest (non-controlling)	-	-	-	-	-	-	-	-	-	-	(0)	-	(0)	-
Net result available to the owner of the parent company	**714,448**	**528,306**	**1,054,953**	**501,819**	**440,502**	**430,373**	**540,376**	**499,389**	**339,613**	**374,335**	**(457,649)**	**(266,173)**	**2,632,243**	**2,068,048**
Operating income	5,141,565	4,551,868	1,680,000	1,511,422	521,490	525,617	599,751	714,023	486,806	496,784	(311,287)	(159,796)	8,118,325	7,639,918
Operating expenses	(4,172,072)	(3,782,307)	(668,020)	(593,439)	(107,206)	(77,059)	(226,621)	(225,125)	(118,248)	(104,716)	(65,646)	(68,624)	(5,357,813)	(4,851,270)
Operating result	**969,493**	**769,561**	**1,011,980**	**917,983**	**414,283**	**448,558**	**373,130**	**488,898**	**368,558**	**392,068**	**(376,933)**	**(228,420)**	**2,760,511**	**2,788,648**
A. Balance sheet			0											
Total assets (end of period)	51,906,453	37,771,574	30,914,765	27,693,422	12,872,863	11,697,209	11,876,823	16,521,135	11,852,407	13,287,144	42,497,693	35,945,996	161,921,005	142,916,481
Total liabilities without capital (end of period)	58,364,359	51,272,821	22,241,715	17,127,294	9,610,850	3,272,865	11,229,909	10,244,945	2,724,198	6,223,974	37,645,576	37,572,850	141,816,606	125,714,749
Capital	3,596,939	2,929,836	2,881,355	2,260,934	1,067,849	928,867	1,514,604	1,715,229	1,461,990	1,550,321	9,581,661	7,816,545	20,104,398	17,201,732
C. Key Indicators / Parameters														
Cost and income ratio	81.1%	83%	40%	39%	21%	15%	38%	32%	24%	21%	21%	43%	66%	63%
Credit and deposit ratio (net)	89.9%	90%	150%	182%	138%	547%	649%	905%	0%	0%	4%	4%	108%	119%
Return on average alocated capital	20%	18%	37%	22%	41%	46%	36%	29%	23%	24%	-5%	-3%	13%	12%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2017

39. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia for major currencies as determined in the interbank foreign exchange market and used in the translation of the statement of financial position components denominated in foreign currencies into functional currency as of December 31, 2017 and December 31, 2016 were as follows:

In RSD

	31.12.2017	31.12.2016
EUR	118.4727	123.4723
USD	99.1155	117.1353
CHF	101.2847	114.8473

Novi Sad, February 28, 2018

Approved by the Management of Erste Bank a.d. Novi Sad

Stevan Čomić Head of the Accounting and Controlling Division	Aleksandra Radić Executive Board Member	Slavko Carić Executive Board Chairman