# ERSTE BANK A.D. NOVI SAD

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

**CONTENTS**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Erste Bank a.d. Novi Sad and its subsidiary (the "Group") which comprise the consolidated balance sheet as of 31 December 2018 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Saša Todorović

PricewaterhouseCoopers d.o.o. Beograd

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 11 March 2019

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## CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

*(in thousand RSD)*

| Financial statement line | Note | 2018. | 2017. |
|---|---|---|---|
| Interest income | 4 | 8.542.507 | 7.740.108 |
| Interest expense | 4 | (1.671.512) | (1.386.166) |
| **Net interest income** | | **6.870.995** | **6.353.942** |
| Fee and commission income | 5 | 2.552.589 | 2.294.654 |
| Fee and commission expense | 5 | (947.422) | (787.891) |
| **Net income from fee and commission** | | **1.605.167** | **1.506.763** |
| Net gains from change in fair value of financial instruments | 6 | 113.756 | 186.712 |
| Net gains from derecognition of financial instruments valued at fair value | 7 | 71.924 | 94.592 |
| Net gains from hedging | 8 | 1.199 | 2.067 |
| Net foreign exchange gains currency clause effects | 9 | 421.095 | 213.998 |
| Net gains from reduction of impairment of financial assets that are not valued at fair value through profit and loss | 10 | - | 41.310 |
| Net loss from reduction of impairment of financial assets that are not valued at fair value through profit and loss | 10 | (163.131) | |
| Net gains from derecognition of financial instruments valued at amortized cost | 11 | 15.095 | - |
| Other operating income | 12 | 102.838 | 58.139 |
| **TOTAL NET OPERATING INCOME** | | **9.038.938** | **8.457.523** |
| Cost of salaeries, contributions and other personel expenses | 13 | (2.179.915) | (2.006.206) |
| Depreciation costs | 14 | (326.514) | (293.554) |
| Other income | 15 | 388.420 | 195.944 |
| Other expenses | 16 | (3.729.738) | (3.472.391) |
| **PROFIT BEFORE TAX** | | **3.191.191** | **2.881.316** |
| Income tax | 17 | (264.750) | (166.319) |
| Deferred tax gain | 17 | 37.637 | - |
| Deferred tax loss | 17 | - | (42.976) |
| **NET INCOME** | 32 | **2.964.078** | **2.672.021** |
| Profit that belongs to the parent entitiy | | 2.952.679 | 2.662.073 |
| Profit attributable to non-controling interest | | 11.399 | 9.945 |

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

Novi Sad, March 11, 2019

Stevan Čomić
Head of Accounting and Controlling Department

Aleksandra Radić
Executive Board Member

ERSTE BANK a.d. NOVI SAD

Slavko Carić
Executive Board Chairman

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

*(in thousand RSD)*

| Financial statement line | Note | 2018. | 2017. |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | 32 | **2.964.079** | **2.672.021** |
| **Components of other comprehensive income that can not be reclassified to profit or loss:** | | | |
| Acturial gains | | 5.821 | 11.360 |
| Other | | - | (246) |
| Positive effects of changes in value of equity instruments valued through other comprehensive income | | 35.382 | 152.793 |
| **Components of other comprehensive income that can be reclassified to profit or loss:** | | | |
| Positive effects of changes in value of debt instruments valued through other comprehensive income | | 78.449 | - |
| Negative effects of changes in value of debt securities valued through other comprehensive income | | - | (7.755) |
| Tax loss related to other comprehensive income of the period | | (23.475) | (21.756) |
| **Total other comprehensive income** | | **96.177** | **134.396** |
| **TOTAL COMPREHENSIVE INCOME OF PERIOD** | | **3.060.256** | **2.806.417** |
| Total comprehensive income attributable to the parent entity | | 3.048.356 | 2.796.452 |
| Total comprehensive income attributable to non-controlling interests | | 11.900 | 9.965 |

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

Novi Sad, March 11, 2019

Stevan Čomić
Head of Accounting and Controlling Department

Aleksandra Radić
Executive Board Member

ERSTE BANK a.d. NOVI SAD 1

Slavko Carić
Executive Board Chairman

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

*(in thousand RSD)*

| ASSETS | Note | 2018. | 2017. |
|---|---|---|---|
| Cash and balances with Central bank | 18 | 24.641.257 | 20.774.027 |
| Derivate recevables | 19 | 181.204 | 64.664 |
| Securities | 20 | 35.153.894 | 32.247.845 |
| Loans and receivables to banks and other financial institutions | 21 | 1.492.872 | 2.198.970 |
| Loans and receivables to customers | 22 | 146.346.487 | 110.472.729 |
| Investment in subsidiaries | | 118 | 118 |
| Intangible assets | 23 | 554.374 | 255.553 |
| Property, plant and equipment | 23 | 1.072.688 | 1.078.617 |
| Current tax asset | 17 | 173.326 | 3.386 |
| Deferred tax asset | 17 | 20.553 | 2.261 |
| Fixed assets held for sale and assets of discontinued operations | 24 | 12.288 | 12.288 |
| Other assets | 25 | 1.245.658 | 1.154.111 |
| **TOTAL ASSETS** | | **210.894.719** | **168.264.569** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Derivate liabilities | 26 | 95.518 | 44.458 |
| Deposits and other liabilities from banks, other financial institutions and Central Bank | 27 | 67.153.387 | 51.859.707 |
| Deposits and other liabilities from customers | 28 | 113.210.214 | 91.982.128 |
| Subordinated liabilities | 29 | 4.566.337 | 1.354.523 |
| Provisions | 30 | 677.194 | 766.609 |
| Current tax liabilities | 17 | 252.560 | 160.965 |
| Deferred tax liabilities | 17 | 4.038 | 5.248 |
| Other liabilities | 31 | 1.085.574 | 1.030.505 |
| **TOTAL LIABILITIES** | | **187.044.822** | **147.204.143** |
| **Equity** | 32 | | |
| Share capital | | 10.164.475 | 10.164.475 |
| Retained earnings | | 3.057.163 | 2.732.926 |
| Reserves | | 10.550.345 | 8.098.170 |
| Non-controlling interest | | 77.914 | 64.855 |
| **TOTAL EQUITY** | | **23.849.897** | **21.060.426** |
| **TOTAL LIABILITIES AND EQUITY** | | **210.894.719** | **168.264.569** |

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

Novi Sad, March 11, 2019

| Stevan Čomić<br>Head of Accounting and Controlling Department | Aleksandra Radić<br>Executive Board Member | Slavko Carić<br>Executive Board Chairman |
|---|---|---|

ERSTE BANK a.d. NOVI SAD 1

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

*(in thousand RSD)*

| | Share capital | Share premium | Other reserves | Revaluation reserves | Retained earnings | Total | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Opening balance at January 1, 2017** | **10.040.000** | **124.475** | **5.652.233** | **283.968** | **2.098.442** | **18.199.118** | **54.892** | **18.254.009** |
| Total other comprehensive income | - | - | - | 134.378 | - | 134.378 | 19 | 134.397 |
| Profit for the year | - | - | - | - | 2.662.076 | 2.662.076 | 9.945 | 2.672.021 |
| Transfer from profit to reserves | - | - | 2.098.441 | - | (2.098.441) | - | - | - |
| Other | - | - | (70.850) | - | 70.850 | - | - | - |
| **Balance at December 31, 2017** | **10.040.000** | **124.475** | **7.679.824** | **418.346** | **2.732.925** | **20.995.570** | **64.856** | **21.060.426** |
| **Opening balance at Januar 1, 2017** | **10.040.000** | **124.475** | **7.679.824** | **418.346** | **2.732.925** | **20.995.570** | **64.856** | **21.060.426** |
| Effect of IFRS 9 transition | - | - | - | - | (271.620) | (271.620) | **1.266** | (270.354) |
| **Balance at January 1, 2018** | **10.040.000** | **124.475** | **7.679.824** | **418.346** | **2.461.305** | **20.723.950** | **66.122** | **20.790.072** |
| Total other comprehensive income | - | - | - | 95.354 | - | 95.354 | 393 | 95.747 |
| Profit for the year | - | - | - | - | 2.952.679 | 2.952.679 | 11.399 | 2.964.078 |
| Transfer from profit to reserves | - | - | 2.356.820 | - | (2.356.820) | - | - | - |
| **Balance at December 31, 2018** | **10.040.000** | **124.475** | **10.036.645** | **513.700** | **3.057.163** | **23.771.983** | **77.914** | **23.849.897** |

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

Novi Sad, March 11, 2019

Stevan Čomić
Director of Accounting and Controlling Department

Aleksandra Radić
Member of the Executive Board

Slavko Carić
Chairman of the Executive Board

ERSTE BANK a.d. NOVI SAD 1

**CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2018**

*(in thousand RSD)*

| | 2018. | 2017. |
|---|---|---|
| **A. CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Cash generated by operating activities** | **15.720.034** | **13.915.940** |
| Interest receipts | 8.413.348 | 7.684.432 |
| Fee and commission receipts | 2.560.046 | 2.311.849 |
| Receipts of other operating income | 4.706.550 | 3.919.410 |
| Dividend receipts and profit sharing | 40.090 | 249 |
| **Cash used in operating activities** | **14.468.691** | **12.620.539** |
| Interest payments | 1.626.838 | 1.436.964 |
| Fee and commission payments | 933.811 | 772.163 |
| Payments to and on behalf of employees | 2.161.333 | 1.990.394 |
| Taxes, contributions and other duties paid | 496.944 | 397.528 |
| Payments for other operating expenses | 9.249.764 | 8.023.489 |
| **Net cash inflows from operating activities prior to increases or decreases in loans and deposits** | **1.251.343** | **1.295.401** |
| **Decrease in placements and increase in deposits and other liabilities** | **21.592.973** | **7.435.595** |
| Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers | 21.592.973 | 7.435.595 |
| **Increase in loans and decrease in deposits receivaed and other liabilities** | **44.601.520** | **17.132.466** |
| Increase in loans and receivables from banks, other financial organizations, central bank and customers | 42.020.668 | 13.962.615 |
| 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 | 2.580.852 | 3.169.852 |
| **Net cash outflow from operating activites before income tax** | **21.757.203** | **8.401.470** |
| Paid income tax | 334.290 | - |
| **Net cash outflow from operating activities** | **22.091.494** | **8.401.470** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | |
| **Cash inflows from investment activities** | **744.770** | **308.029** |
| Inflows from investing in investment securities | 216.576 | 34.475 |
| Inflows from the sale of investment properties | - | 273.554 |
| Other inflows from investment activities | 528.194 | - |
| **Cash outflows from investment activities** | **1.337.265** | **423.408** |
| Outflows from investing in investment securities | 264.244 | - |
| Outflows from investing in property, plant and equipment | 9.064 | 9.496 |
| Inflows from the sale of investment properties | 594.139 | 413.912 |
| Other outflows from investment activities | 469.818 | |
| **Net cash outflow of cash from investment activities** | **592.495** | **115.379** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| **Cash inflows from financing activities** | **18.633.000** | **11.609.089** |
| Cash inflows based on subordinated liabilities | 3.211.814 | - |
| Inflows from taken loans | 15.421.186 | 10.649.504 |
| Other inflows from finacing activities | - | 959.585 |
| **Cash outflows from finacing activities** | **541.107** | **1.986.848** |
| Cash outflows based on subordinated liabilities | - | 410.083 |
| Outflows from taken loans | 470.815 | 739.365 |
| Other outflows from financing activities | 70.292 | 837.401 |
| **Net cash inflow from financing activities** | **18.091.893** | **9.622.241** |
| **TOTAL CASH INFLOWS** | **56.690.778** | **33.268.653** |
| **TOTAL CASH OUTFLOWS** | **61.282.873** | **32.163.261** |
| **NET INCREASE IN CASH** | **-** | **1.105.392** |
| **NET DECREASE IN CASH** | **4.592.095** | **-** |
| **CASH AT THE BEGINNING OF THE YEAR** | **12.630.868** | **11.300.417** |
| **POSITIVE FOREIGN EXCHANGE DIFFERENCES** | **6.771.455** | **10.214.318** |
| **NEGATIVE FOREIGN EXCHANGE DIFFERENCES** | **6.348.916** | **9.989.258** |
| **CASH AND CASH EQUIVALENT AT THE END OF THE YEAR** | **8.461.312** | **12.630.868** |

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

Novi Sad, March 11, 2019

| Stevan Čomić | Aleksandra Radić | Slavko Carić |
|---|---|---|

ERSTE BANK a.d. NOVI SAD 1

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 1. GENERAL INFORMATION

Erste Bank a.d., Novi Sad (hereinafter referred to as "the Bank") was founded on 25 December 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 EGB (Erste Group Bank) CEPS HOLDING GMBH, Vienna, with 74% interest and Steiermärkische Bank und Sparkassen AG, Graz, with 26% interest in the Bank's share capital. In order to simplify the Erste Group Bank AG, a transfer of ownership of shares, which were owned by EBG CEPS in European, banks to the Erste Group. In doing so, Erste Group became the direct shareholder of the Bank with a 74% share in the share capital. The decision of the General Assembly to amend the founding acts was made on 30 June 2015, and the change in the APR were carried out on 22 June 2015.

As of 15 January 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. 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 still remained members of Erste Group.

The accompanying financial statements and notes to the financial statements represent the Group's consolidated financial statements. The Bank is the Parent Entity of the Group and as such, in accordance with the requirements of the Law on Banks, it is obligated to prepare consolidated financial statements as of and for the year ended 31 December 2017. The consolidated financial statements include the financial statements of the Leasing, which is 75%-owned by the Bank.

The Bank is registered in the Republic of Serbia for providing 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, Bulevar Oslobođenja 5. The Bank operates through 7 business centers, 46 branches, 9 sub-branches and 4 counters.

As of 31 December 2018 the Bank had 1.075 employees (31 December 2017: 1.075 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.

The S-Leasing d.o.o. Beograd was established in June 2003. The Company is organized as a limited liability company and is registered with the Business Registers Agency Decision no. BD 33349/2005 dated 7 June 2005.

Upon entry into force of the Law on Financial Leasing, the Company is licensed to carry out financial leasing operations according to the Decision of the National Bank of Serbia no. 622 as of 25 January 2006.

In 2014, there was a change in the ownership structure of the basic capital of S-Leasing and Erste Bank stock company, Novi Sad, Serbia became the majority owner of the company with a share of 75,0%, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria reduced its share to 25,0%. Share capital of the Company as at 31 December. In 2013, it consisted of the share of the founders Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50,0%) and Immorent International Holding GmbH, Vienna, Austria (50,0%).

The main activity of the Company is the provision of financial leasing of movable assets to individuals and legal entities on the territory of the Republic of Serbia.

The Company's Head Office is in Belgrade, Milutina Milankovica no. 3a.

The Company had 45 employees as at 31 December 2018 (31 December 2017: 42 employees)

Company registration number is 17488104. Its tax identification number is 102941384.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1. Basis of Preparation and Presentation of the Consolidated Financial Statements

The Group's financial statements (the "financial statements") for 2018 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. 101/2017 and 38/2018).

The accompanying financial statements represent the consolidated financial statements of the Group. The Bank, as the parent company of the Group, has compiled and presented a separate set of individual financial statements.

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 consolidated financial statements, the Group 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 Group'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 Group will continue to operate in the foreseeable future.

In the preparation of the accompanying financial statements, the Group 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, entered into force on 1 January 2018:

Starting from 1 January 2018, the Group applies IFRS 9 "Financial Instruments" issued by the Standards Board in July 2014. This led to a change in accounting policies for the classification and measurement of financial assets and financial liabilities, as well as of impairment of financial assets. IFRS 9 has significantly expanded IFRS 7 '' Financial Instruments: Disclosures '', which has led to the adjustment of disclosure of financial instruments to new requirements.

The option of exemption is used, as permitted by the transitional regulations of IFRS 9, which allows non-correction of comparative amounts for 2017, i.e. the previous financial year. As a result, the columns of the comparative period in the financial statements for 2018 reflect the structure used in the financial statements for 2017.

Also, the disclosure of the comparative period in the Notes is based on the original classification and measurement requirements of IAS 39 and IFRS 7 (before the consequential changes arising from IFRS 9). Due to this fact, the accounting policies relevant for financial instruments in accordance with IAS 39 have been published.

The financial effect of applying IFRS 9 is shown in the following tables.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### A) New and amended standards and interpretations (continued)

**Classification and measurement of financial instruments**

The following table shows the changes between the categories of measurement and the book value of financial assets and liabilities under IAS 39 and IFRS 9 as at 1 January 2018 as well as the reconciliation of the book value of financial assets according to the measurement category.

| Financial statement line | IAS 39 | | New classification under IFRS 9 | Net value IAS 39 final balance as at 31 December 2017 | Net value IFRS 9 opening balance as at 1 January 2018 | Effect | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Re-evaluation | | Reclassification | |
| | Portfolio | Measurement categories | | | | Expected Credit Losses | Other | Mandatory | Optional |
| **ASSETS** | | | | | | | | | |
| **Cash and cash equivalents** | Loans and advances | Amortized cost | Amortized cost | 20.774.027 | 20.774.027 | - | - | - | - |
| **Financial assets at fair value through Profit and Loss account held for trading** | Assets held for trading | Securities valued at FV through P&L | Securities valued at FV through P&L | 11.474.799 | 11.474.799 | - | - | - | - |
| **Available-for-sale financial assets** | AFS | Securities valued at FV through equity | Securities valued at FV through equity | 42.844 | 14.040 | - | - | - | - |
| | | | Securities valued at FV through P&L | | 28.804 | - | - | 28.804 | - |
| **Available-for-sale financial assets - debt securities** | AFS | Securities valued at FV through equity | Securities valued at FV through equity | 12.445.749 | 12.445.755 | 6 | - | - | - |
| **Financial assets held to maturity** | HTM | Amortized cost | Amortized cost | 8.284.452 | 8.283.322 | 1.130 | - | - | - |
| **Derivate receivables** | Assets held for trading | Securities valued at FV through P&L | Securities valued at FV through P&L | 64.665 | 64.665 | - | - | - | - |
| **Loans and advances to banks and other financial institutions** | Loans and advances | Amortized cost | Amortized cost | 2.198.970 | 2.198.576 | 394 | - | - | - |
| **Loans and advances to customers** | | | | 110.472.729 | 110.192.456 | 280.273 | - | - | - |
| **Other assets** | Amortized cost | Amortized cost | Amortized cost | 278.092 | 262.827 | 15.265 | - | - | - |
| **LIABILITIES** | | | | | | | | | |
| **Financial liabilities at fair value through profit and loss account held for trading** | Assets held for trading | Securities valued at FV through P&L | Securities valued at FV through P&L | 44.458 | - | - | - | - | - |
| **Derivate liabilities** | | | | - | 44.458 | - | - | - | - |
| **Deposits and other liabilities from banks, other financial institutions and central bank** | Amortized cost | Amortized cost | Amortized cost | 51.859.707 | 51.859.707 | - | - | - | - |
| **Deposits and other liabilities from customers** | | | | 91.982.128 | 91.982.128 | - | - | - | - |
| **Subordinated liabilities** | Amortized cost | Amortized cost | Amortized cost | 1.354.523 | 1.354.523 | - | - | - | - |

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A) New and amended standards and interpretations (continued)**

**Classification and measurement of financial instruments (continued)**

1) Derivative receivables are singled out as a separate item in accordance with IFRS 9 Balance Sheet, from the financial line Financial Assets at fair value through profit and loss account held for trading.

2) Positions Financial assets at fair value through profit or loss account held for trading, Available-for-sale financial assets and Financial assets held to maturity under IAS 39 Balance Sheet constitute a new position of the Securities by IFRS 9 Balance Sheet.

3) Part of the item Financial assets available for sale under IAS 39 that relates to equity securities are recognized under IFRS 9 in the category of securities designated at fair value through profit and loss account in the amount of RSD 28.804 thousand.

4) In the financial statement line Financial assets available-for-sale - debt securities, there is a re-valuation effect due to the application of IFRS 9 standards in the amount of RSD 6 thousand.

5) In the financial statement line Financial assets held to maturity, there is a re-valuation effect due to the application of IFRS 9 standards in the amount of RSD 1.130 thousand.

6) In the financial statement line Loans and receivables from banks and other financial organizations and Loans and receivables from customers there is a re-valuation effect due to the application of IFRS 9 standards in the amount of RSD 384 thousand or RSD 280.273 thousand

7) In the finacial statement line Other assets, there is a re-valuation effect due to the application of IFRS 9 standards in the amount of RSD 15.265 thousand.

8) Derivate liabilities are singled out as a separate position in accordance with IFRS 9 Balance Sheet, from the financial statement line Financial liabilities at Fair Value through the Profit and Loss Account held for trading.

9) In the financial statement line Provisions there is a re-valuation effect due to the application of IFRS 9 standards in the amount of RSD 7.253 thousand.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A) New and amended standards and interpretations (continued)

The table shows the reconciliation of the amount of allowance for impairment as at 31 December 2017 under IAS 39 impairment model due to the loss incurred and as at 1 January 2018 under IFRS 9 impairment model due to the expected credit loss.

**Harmonization of allowance of financial assets and liabilities according to the categories of measurement**

| Financial statement line | Measurement categories under IAS 39 | New classification under IFRS 9 | Net value IAS 39 final balance as at 31 December 2017 | Net value IFRS 9 opening balance as at 1 January 2018 | Effect | |
|---|---|---|---|---|---|---|
| | | | | | Re-evaluation | Reclassification |
| **ASSETS** | | | | | | |
| **Cash and cash equivalents** | Amortized cost | Amortized cost | - | - | - | - |
| **Financial assets at fair value through Profit and Loss account held for trading** | Securities valued at FV through P&L | Securities valued at FV through P&L | - | - | - | - |
| **Available-for-sale financial assets – equity securities** | Securities valued at FV through equity | Securities valued at FV through equity | - | - | - | - |
| **Available-for-sale financial assets - debt securities** | | | 6 | 68.319 | 6 | 68.319 |
| **Financial assets held to maturity** | Amortized cost | Amortized cost | 45.418 | 46.548 | 1.130 | - |
| **Derivate receivables** | Securities valued at FV through P&L | Securities valued at FV through P&L | - | - | - | - |
| **Loans and advances to banks and other financial institutions** | Amortized cost | Amortized cost | 13.595 | 12.140 | (1.455) | - |
| **Loans and advances to customers** | Amortized cost | Amortized cost | 4.258.281 | 3.548.303 | (709.978) | - |
| **Other assets** | Amortized cost | Amortized cost | 46.522 | 61.787 | 15.265 | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| **Off-balance provisions** | Amortized cost | Amortized cost | 326.072 | 333.325 | 7.253 | - |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### A) New and amended standards and interpretations (continued)

Column Reclassification refers to changes in impairment allowances due to a change in the scope of the calculation of impairment allowances between IFRS 9 and IAS 39.

Column Revaluation refers to changes in the balance of impairment allowances while the scope for the calculation is the same as under IAS 39 for balance sheet impairment allowances i.e. IAS 37 for off-balance sheet impairment allowances.

1) In the financial statement line Financial assets available-for-sale - debt securities there is a re-valuation effect due to the application of IFRS 9 standard in the amount of RSD 6 thousand. The effect refers to the cancellation of the impairment allowances. Also, the effect on this position due to reclassification is RSD 68.319 thousand. This increase in impairment allowance is due to newly recognized impairment allowances based on available-for-sale securities.
2) In the financial statement line Financial assets held to maturity, the effect of a re-valuation from application of IFRS 9 standard is in the amount of RSD 1.130 thousand.
3) In positions Loans and advances to banks and other financial organizations and Loans and advances to customers, the effect on impairment allowances due to re-valuation i.e. the adoption of IFRS 9 standard, is shown in the amount of RSD 1.455 thousand or RSD 709.978 thousand, of which RSD 259.549 thousand is a positive effect from the application of the expected loss model, while RSD 969.527 thousand is a reduction in impairment allowances due to the adjustment of the book value for the category POCI.
4) In the "Other assets" financial statement line, the effect of impairment allowance due to re-evaluation is shown, i.e., due to the application of IFRS 9 standard in the amount of RSD 15.265 thousand.
5) In the Off-balance provision financial statement line, the effect of a re-valuation due to the application of IFRS 9 standard is shown in the amount of RSD 7.253 thousand.

**Impact on deferred tax after transition to IFRS 9**

| ITEM | IAS 39 closing balance as at 31 December 2017 | IFRS 9 opening balance as at 1 January 2018 | Effect on retained earnings +/- | Effect on OCI +/- |
|---|---|---|---|---|
| **Changes in deferred tax assets** | 2.261 | 2.261 | - | - |
| **Changes in deferred tax liabilities** | 5.248 | 5.248 | 9.378 | (9.378) |

The balance on deferred tax liabilities is unchanged after the application of IFRS 9 standard, however, by applying the standard, there is spill-over effect of the tax between retained profit and the OCI.

At the end of 2018, with Amendments to the Corporate Income Tax Act, taxpayers have been enabled to recognize effects of changes in the accounting policy, arising from the first application of the IAS, or IFRS and IFRS for SMEs, based on which, in accordance with the accounting regulations, the correction of the corresponding positions in the balance sheet is made, as income/expense in the tax balance, starting from the tax period in which the correction was made.

Revenues and expenses are recognized in equal amounts in five tax periods.

On this basis, on 31 December 2018, the Group reduced the basis for calculation of current income tax in the amount of RSD 8.263.620 and recognized deferred tax assets in the amount of RSD 33.054.480.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### A) New and amended standards and interpretations (continued)

***Classification of Financial Instruments according to standard IFRS 39***

The Group is according to IFRS 39 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.

***Cash and Cash Equivalents***

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Group's and Lessor's RSD 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.

***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. Financial assets are classified as held for trading if they have been primarily acquired for generating profit from short-term price fluctuations or are derivatives. Trading securities are stated in the statement of financial position at fair value. The Group 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. All realized or unrealized gains and losses arising upon measurement and sale of financial assets at fair value are stated in the income statement.

***Financial Assets Held to Maturity***

Securities held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group'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.

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.

***Loans and Receivables due from Banks and Customers***

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market except:
(a) assets the entity intends to sell immediately or in the short term, which would then be classified as assets held for trading and as assets that entity, after initial recognition, designates at fair value through income statement;
(b) assets that entity, after initial recognition, designates as available for sale;
(c) assets for which the holder cannot substantially recover his entire initial investment, unless it is due to the deterioration of the loan, and which will be classified as available.

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)

### A) New and amended standards and interpretations (continued)

***Financial Assets Available for Sale***

Securities intended to be held for an indefinite period of time, which may be sold or pledged with the National Bank of Serbia as security, in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available-for-sale". Available-for-sale securities include other legal entities' equity instruments 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. 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. 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.

**Relations between balance sheet items, measurement and categories methods of financial instruments in a comparative period**

<table>
<tr><th rowspan="2">Financial statement line</th><th colspan="3">Measurement method</th><th rowspan="2">Category of financial instrument</th></tr>
<tr><th>Fair value</th><th>Amortized cost</th><th>Other</th></tr>
<tr><td>Cash and cash equivalents</td><td></td><td>x</td><td></td><td>Loans and advances</td></tr>
<tr><td>Financial assets at fair value through Profit and Loss account held for trading</td><td>x</td><td></td><td></td><td>Assets held for trading</td></tr>
<tr><td>Available-for-sale financial assets – equity securities</td><td>x</td><td></td><td></td><td>AFS</td></tr>
<tr><td>Available-for-sale financial assets - debt securities</td><td>x</td><td></td><td></td><td>AFS</td></tr>
<tr><td>Financial assets held to maturity</td><td></td><td>x</td><td></td><td>HTM</td></tr>
<tr><td>Derivate receivables</td><td>x</td><td></td><td></td><td>Assets held for trading</td></tr>
<tr><td>Loans and advances to banks and other financial institutions</td><td></td><td rowspan="2">x</td><td></td><td rowspan="2">Loans and advances</td></tr>
<tr><td>Loans and advances to customers</td><td></td><td></td></tr>
<tr><td>Other assets</td><td></td><td>x</td><td></td><td>Amortized cost</td></tr>
</table>

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A) New and amended standards and interpretations (continued)**

The International Accounting Standards Board issued the **The Cycle of Annual Improvements of 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 for 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 amendments to IFRS 12 will have an impact on the Group's financial statements.

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

The standard is applicable starting from or after 1 January 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 Group'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. The Group's management is currently in the process of assessing the potential impact of the requirements of this standard on the Group's financial statements.

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

The clarifications of the standards will apply starting from or after 1 January 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 Group 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 Group'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 Group's financial statements.

- **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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A) New and amended standards and interpretations (continued)**

- **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 Group's financial statements.

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

- **IFRS 9: Financial instruments (Amendment)**

  Amendments to the standards are applicable for the period beginning on or after 1 January 2019, with the possibility of early application. When a financial liability is measured using the depreciated cost method and when a modification does not result in a discontinuance of recognition, then the gain or loss should immediately be recognized in the income statement of the current period. Gain or loss is calculated as the difference between original cash flows and modified cash flows discounted at present value using the original effective interest rate. Profit or loss cannot be divided into the remaining period of the financial instrument, which represents a change in relation to the practice permitted by the IAS 39 standard. It is not expected that changes to this standard will have an impact on the Group's financial statements.

- **IFRS 16: Leasing**

  In January 2016, the IASB issued IFRS 16 effective on or after 1 January 2019. IFRS 16 replaces existing lease accounting guidelines in IAS 17 Leasing, IFRIC 4 - Determining whether a contract is a lease, SIC-15 Operational Leasing - Incentives and SIC-27 Evaluation of substance of transactions involving the legal form of leasing.

  IFRS 16 introduces a unique model of calculation of leasing for the leaseholder. The leaseholder recognizes the property relating to the right of use that represents its right to use the fixed assets and obligation of lease that represents its obligation to pay the lease. There are exceptions to the recognition of leases, such as for short-term lease agreements (shorter than 12 months) and lease agreements for small-value items.

  For each lease agreement, it is assessed whether it contains a lease, i.e. whether the contract has the right to control the use of the identified property during the agreed period in exchange for compensation.

  Assets with the right of use and lease obligations are recognized at the start of the lease. Assets are initially measured at cost and subsequently depreciated from the start date to the lease term. The Group will use a linear depreciation method.

  The lease obligation is initially measured at the present value of the lease payments that are not paid at the effective date of the application, discounted using the implicit interest rate or, if the rate cannot be easily determined, using the borrowing rate of tenant. Lease-based payments include fixed rentals, variable rent payments based on an index or rate, amounts that are expected to be paid under the guarantee of residual value and lease payments for the optional extension period if the lessee estimated that they would use the options and penalties for early termination of the contract if the lease term reflects the tenant that is using the termination option. Subsequently, book value of the lease obligation is increased by the interest rate at the current discount rate, minus the executed lease payments and possibly reassessed in accordance with the lease amendment.

  For the lease of movable items, the Group uses the incremental borrowing rate - the rate at which the Bank could lend funds to Erste Group.

  Determining the incremental borrowing rate for the lease of immovable property is based on a rate that can easily be spot. Such rate represents the revenue from property reflecting the annual return expected on the property - the capitalization rate for which calculation, developed by Erste Austria Real Estate, is used. Starting from the base rate for a) the capital city or b) the rest of the country in dependence and it is additionally corrected (increased /reduced) depending on the technical conditions of the facility, market conditions, location, purpose of the facility, the need for additional investment etc. In this way, the capitalization rate for each object is obtained.

  Lease accounting remains in line with the applicable IAS 17 standard, i.e. the lessor continues to classify leasing as a financial or operating lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **IFRS 16: Leasing (continued)**

The Group will transfer to IFRS 16 using a modified retrospective approach in accordance with IFRS 16.C5 (b) where comparative information will not be rectified. For leases previously classified as operating leases, the discount rate will be the incremental borrowing rate of the tenant, i.e. the capitalization rate, which is determined on the date of the first application. Assets with right of use will be recognized in the amount of an equal lease obligation (IFRS 16.C8 (b) (ii)). As a result, the Group does not expect any impact on capital during initial application. All contracts previously identified as leases applying IAS 17 and IFRIC 4 will be transferred to IFRS 16. The Group will not apply IFRS 16 to any intangible assets contracts. The Group will use the exemption for short-term leases and low-value leases, whereby the right to use property is not recognized.

Assets with the right of use which will be recognized as of 1 January 2019 as well as the amount of leasing obligations that will be recognized as of 01.01.2019., according to the Group's assessment, will approximately be in amount of RSD 1.297.923 thousand in which the balance sheet amount of the Group will increase.

According to the analysis of the leasing contracts that the Group has at the date of transition to IFRS 16 that meet the requirement of recognition as the asset with the right of use, 95% of the leasing contract refers to real estate.

- **IFRS 17: Insurance Contracts**

The standard is applicable for a period beginning on or after 1 January 2022, 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 Group'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.

- **IAS 19: Employee benefits (Amendments)**

Amendments to the standards are applicable for the period from or after 1 January 2019. Amendments require the entity to: use updated assumptions for determining current service costs and net interest for the reminder of the period after a plan amendment, curtailment or settlement; recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. The Group's management does not expect that the requirements of this standard will have a significant impact on the Group'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**

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

  Amendments to the standards are applicable for the period from or after 1 January 2020. Amendments require the entity to: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The Group's management does not expect that the requirements of this standard will have a significant impact on the Group's financial statements.

  The following new disclosures are not expected to have significant impact on the Group's financial statements when adopted:

- The possibility of early repayment with a negative charge - amendments to IFRS 9 (published on 12 October 2017 and effective for periods beginning on or after 1 January 2019),
- Long-term investments in associated legal entities and joint ventures - amendments to IAS 28 (published on 12 October 2017 and effective for periods beginning on or after 1 January 2019),
- Annual Cycle Improvements IFRS 2015 - 2017 - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (disclosed on 12 December 2017 and effective for periods beginning on or after 1 January 2019),
- Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (published on 12 September 2016 and will enter into force, depending on the approach, for periods beginning on or after 1 January 2018 for legal entities that choose to apply the temporary exclusion option or when the entity first applies IFRS 9, the overlap approach is used),
- Business combinations - amendments to IFRS 3 (published 22 October 2018 and effective for periods beginning on or after 1 January 2020).

### 2.2 Basis for consolidation

The accompanying consolidated financial statements include the financial statements of the Bank and of the company under the Bank’s control. Control exists if the Bank has the power to manage the financial and operating policies of the subsidiary in such a manner that it can realize benefits from its activities. Control is achieved if the Bank has exposure to or rights to variable returns from its involvement with the investee and has the ability use its power over the investee to affect the amount of returns.

Income and expenses of the subsidiary are included in the consolidated income statement and other comprehensive income from the effective date of control acquisition. Financial statements of the subsidiary are adjusted as appropriate so as to align its accounting policies with those applied by the Bank as the Parent Entity of the Group. All balances receivable or payable, income and expenses arising from intra-group transactions are eliminated in full upon consolidation. The non-controlling interest represents a share in the profit or loss and equity of the subsidiary of which the Bank is neither direct nor indirect owner. The non-controlling interest is presented separately in the Group's income statement and within equity in the statement of financial position, separately from the Bank's equity.

### 2.3 Business Combinations

As at 31 December 2018 the Bank holds 75% ownership of the Leasing. At the date of acquisition, total assets of the Leasing amounted to RSD 3.092.233 thousand, total equity amounted to RSD 60.455 thousand while the loss amounted to RSD 113.284 thousand. On 31 December 2017, total assets of the Leasing amounted to RSD 8.564.439 thousand, total equity amounted to RSD 67.500 thousand while the profit amounts to RSD 242.154 thousand.

A business combination including entities or operations under joint control is a business combination in which the said entities are under joint control of the same party, both before and after the business combination, and such control is not transitory, since IFRS 3 does not apply to business combinations of entities under joint control, in accordance with IAS 8, the Group adopted an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of the method is as follows:

- The assets and liabilities of the entity being acquired are shown at carrying value as presented in the separate financial statements of the Parent Entity;
- There are no new estimates of fair value or recognition of any new assets or liabilities, adjustments are only carried out in order to harmonize accounting policies;
- Goodwill arising on acquisition is not recognized;
- The difference between the consideration paid / transfer and "acquired" capital is shown in the equity section;
- The income statement reflects the result of all companies for the whole financial year, if the combination took place earlier at the start of the year and the deviation is immaterial;
- Comparatives are not restated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4. 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 Group 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.

The calculation of the effective interest rate takes into account all contractual terms of the financial instrument but not future credit losses.

The non-amortized balance of pre-charged fees and other transaction costs included in the effective interest rate, as well as the non-amortized balance of placement adjustment due to modification, in the event of termination of recognition of a financial asset is presented within the interest income on the day of termination of recognition.

**Unwinding** as interest income on impaired loans and advances to customers is calculated using the effective interest rate on the amortized value (net worth) of loans and placements.

Interest income also includes gains and losses from modifications recognized on financial assets as Stage 1.

### 2.5. Fee and Commission Income and Expenses

The Group earns/pays fee and commission income from rendering and using banking services. Fees and commissions are generally recognized on an accrual basis when the service has been provided, i.e. rendered.

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

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

Fees earned for the provision of services over time are deferred over the period of service rendering.

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.

### 2.6. Foreign Exchange Translation

Financial statement items are stated using the currency of the Group'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 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7. Net gain/loss from the termination of the recognition of financial instruments

These items include gain / loss in the case of selling financial instruments and modification of contractual terms over a period of time that results in the termination of recognition of a financial asset or a financial liability.

### 2.8 Financial instruments

A financial instrument is any contract that leads to an increase in the financial assets of one of the parties i.e. Financial obligations or equity instruments of the other counterparty. In accordance with IFRS 9 (as well as IAS 39), all financial assets and liabilities - which also include derivative financial instruments - should be recognized in the balance sheet and in accordance with their assigned categories.

### 2.8.1. Methods of measuring financial instruments

#### a) Amortised cost and Effective interest rate

**Amortised cost** is the amount by which the financial asset or financial liability is measured at initial recognition minus repayment of principal and plus or minus cumulative depreciation by using the effective interest rate method of any difference between that initial amount and the amount of maturity. For financial assets, the amount is adjusted for the impairment allowance.

**Effective interest rate** is the rate that exactly discounts the estimated future cash payments or receipts over the expected duration of a financial instrument or, if appropriate, a shorter period than the gross carrying amount of the financial asset or the net carrying amount of a financial liability.

When the effective interest rate is calculated, the G estimates cash flows taking into account all contractual terms of a financial instrument (for example, early repayment, purchase and similar options) but does not take into account future credit losses. The calculation includes all fees and points paid or received between the contracting parties, which are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For purchased or created financial assets reduced for credit losses ("POCI"), the credit-adjusted EIR is used - the effective interest rate adjusted for credit risks. This is the rate that accurately discounts the estimated future cash flows that take into account the expected credit losses at amortised cost of a financial asset.

The effective interest rate is used for the recognition of interest income and interest expense.

Interest income is calculated as follows:
• Applying the effective interest rate to the gross carrying amount of a financial asset (Stage 1 and Stage 2)
• Applying the effective interest rate on the amortised value of a financial asset in subsequent reporting periods as long as the asset is reduced for credit losses (Stage 3)
• Applying a credit-adjusted effective interest rate on purchased or created financial assets reduced for credit losses (POCI).

Interest expenses are calculated using the effective interest rate on the amortized value of a financial liability.

#### b) Fair value

The fair value is defined as the price that would be received for a sale of the asset or would be paid for transfer of the obligation in a normal transaction between market participants on the measurement date. This definition of fair value also applies to the measurement of the fair value of non-financial assets and liabilities. More detailed disclosure on valuation models and hierarchy of instruments that are valued at fair value are given in Note 35.10. Fair value of financial assets and liabilities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Financial Instruments (continued)

#### 2.8.2. Initial recognition and evaluation

**a) Initial recognition**

Financial assets and financial liabilities are recognized in the Group's statement of the financial position on the date upon which the Group 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.

**b) Initial evaluation**

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. After initial recognition, fair value is in many cases equal to transaction costs, i.e. the price paid for acquiring or taking over financial assets or received for the takeover of financial liabilities.

***"Day 1" Profit***

When the transaction price in an 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 Group immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement.

#### 2.8.3. Classification and subsequent evaluation

Group Management performs classification of financial instruments at initial recognition. The classification of financial instruments in initial recognition depends on:

a) A business model for managing these financial assets – it is determined whether a financial asset is a part of a portfolio that is managed by collecting contracted cash flows or sold, or any other model

b) The characteristic of contracted cash flows – estimates focuses on checking whether the contractual terms of a financial asset increase, on specific dates, a cash flow that represents the payment of principal and interest.

The Group classified the financial assets into the following categories:
• financial assets at amortized cost
• financial assets at fair value through profit and loss,
• investments that are valued at fair value through other comprehensive results.

Subsequent valuation of financial assets depends on their classification.

#### 2.8.3.1. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.
On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance.

They are presented under the line 'Loans and receivables, 'Securities' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Financial assets at amortized cost are the largest category of measurement, as the entire credit portfolio of the Group's is measured at amortized cost. A part of securities consists of debt securities that are measured at amortized cost. The remaining debt securities are valued at fair value either through the profit and loss or through other comprehensive results.

Interest income on these assets is calculated by effective interest method and is included under the line 'Interest income' under 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## 2.8 Financial Instruments (continued)

### 2.8.3. Classification and subsequent evaluation

#### 2.8.3.2 Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value **through other comprehensive income** if their contractual cash flows are SPPI-compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets

In the balance sheet, such assets are presented within the 'Securities' position.

A part of debt securities that meets the above criteria is measured at fair value through other comprehensive results. Interest income on such securities is calculated using the effective interest method and is included in the 'net interest-rate' position in the group's income statement. Gains and losses arising from impairment for credit losses are also presented in the income statement at the position "Net expense from impairment of financial assets that are not valued at fair value through profit and loss account."

As a result, the effect of valuation recognized in the group's income statement is the same as for financial assets that are measured at amortized cost. The difference between the fair value at which these securities are valued in the balance sheet and their amortized cost is recognized through the other comprehensive result within the 'Positive / negative effects of the change in debt instruments that are valued at fair value through other comprehensive income" When the securities ceases to be recognized, the amount previously accumulated in the other comprehensive result is reclassified to the income statement and presented at the position 'Net gain / loss on recognition of financial instruments at fair value.'

The Group chose the option that certain equity instruments that are not held for trading are valued at fair value through other comprehensive results, and this option applies to strategically significant investments of the Group. Result of valuation through fair value is presented under 'Positive / negative effects of the change in equity instruments that are valued at fair value through the other comprehensive income'. The amount recognized in the other comprehensive result is never reclassified to the income statement.

Other equity instruments of the Group are valued at fair value through profit and loss.

#### 2.8.3.3 Financial assets at fair value through profit or loss

Financial assets that either have not passed the SPPI test or have another business model have this category of measurement of fair value through the income statement. These financial assets are generally sold before their maturity and their performance is estimated on the basis of fair value, and profit is realized through its realization through sale. In the business of the Group, this is a business model by which financial assets are held for trading.

The Group in its portfolio of securities has a part of debt instruments held for trading.
The G does not have debt financial instruments that have not passed the SPPI or are designed to be measured at fair value through profit and loss.

### 2.8.4. Impairment of financial instruments under IFRS 9

The Group recognizes impairment losses on debt financial instruments (loans and receivables and debt securities) other than those valued under FVPL, as well as for off-balance sheet credit exposures arising from guarantees and other liabilities.

Impairment is based on the model of expected credit losses whose measurement reflects:

- An impartial and probable weighted amount determined on the basis of an estimate of a number of possible outcomes;
- Time value of money;
- All reasonable and corroborative information available without unnecessary cost and effort on the day of reporting, on past events, current conditions and forecast of future economic circumstances.

Expected credit loss / impairment is the present value of any decrease in the expected cash flow over the expected life of the financial asset. The decrease represents the difference between the cash flows owed to the Group in accordance with the contract and the cash flows that the Group expects to receive. Since the expected credit losses take into account the amount and the time of payment, the credit loss arises even when the Group expects to pay in full but later than the maturity of the contract.

The amount of the impairment loss is recognized as an impairment allowance of the asset. For the purpose of measuring the amount of expected credit losses (ECL) and the recognition of interest income, the Group distinguishes between three stages of impairment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8. Financial instruments (continued)

### 2.8.4. Impairment of financial instruments under IFRS 9

1) Stage 1

a) Assets the initial (on-balance) recognition (except POCI assets)
b) Financial assets which fulfil the low credit risk conditions
c) Financial assets without significant increase in credit risk since initial recognition irrespective of their credit quality

For Stage 1 the credit risk loss allowances are calculated as 12-months ECL.

2) Stage 2

It includes financial assets with a significant increase in credit risk, but not credit-impaired at the reporting date, including initially recognized assets described under 1) a) ii) above.

For Stage 2 the credit risk loss allowances are calculated as lifetime ECL.

3) Stage 3

It includes financial assets which are credit-impaired at the reporting date.

For Stage 3 the credit loss allowances are calculated as lifetime ECL.

POCI assets – financial assets impaired during initial recognition. POCI assets are note part of Stage transfer i.e. regardless of the change in the credit quality of the client after the initial recognition of the POCI property, the calculation of expected credit losses is made throughout the life of the financial asset. Moreover, lifetime credit losses expected on POCI asset's initial recognition date have to be considered in the calculation of asset's fair value at that date and not recognized as a credit loss allowance (whilst subsequent changes in those original expectation result in recognition of credit loss allowances only if they result in lower expectations compared to origination date, whereas those that result in better expectations compared to initial recognition date are recognized as increases in POCI asset's gross carrying amount).

### 2.8.5. Derecognition of financial assets and liabilities

**Financial assets** cease to be recognized when the Group loses control over the contractual rights over these instruments, which occurs when the rights of use of the instruments are realized, expired, abandoned or ceded.

When the Group has transferred the rights to receive cash inflows from assets or has concluded a transfer agreement and thereby has not transferred all risks and benefits of the asset nor did it transfer control over the asset, the asset is recognized to the extent that the Group is engaged around the asset. Further engagement of the Group, which has the form of a guarantee on the transferred asset, is valued at the amount of the original carrying amount of the asset or the amount of the maximum amount of compensation that the Group would have to pay, depending on the amount that is lower.

In its regular operations during the term of the loan agreement, the Group may renegotiate the terms of the contract and modify them. This may include commercial market-driven customer negotiations or commercial negotiations that prevent or mitigate the financial difficulties of a client. In order to preserve the economic substance and determine the financial effects of such modifications, the Group has defined some criteria by which it assesses whether the changed terms of the agreement are substantive and significantly different from the original ones. These are - the change of the borrower, the change of currency, the introduction of clauses that lead to a change in cash flows so that the placement is no longer a SPPI.

Certain contract changes (such as reprogramming) with clients experiencing financial difficulties are not treated as significant from the point of view of cessation of recognition as they aim to improve the probability of payment of the contracted cash flow by the Group.

On the other hand, such changes in clients who do not face financial difficulties can be dysfunctional and lead to the termination of recognition. These are the following criteria: change in the repayment plan in the way that the average remaining maturity of the placements is changed by more than 100% and not more than two years compared to the original contract, the change in the time or amount of the contracted cash flow resulting in the change of the present value of the modified asset for more from 10% to the book value of placements, commercial negotiations initiated due to changes in market conditions that are more favorable to the client as an alternative to refinancing.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8. Financial instruments (continued)

#### 2.8.5. Derecognition of recognition of financial assets and liabilities (continued)

In case of significant modifications of the contractual terms (as stated above), the Group ceases to recognize the old asset and recognizes a new, modified asset. If the debtor is in default or a significant modification leads to default, the new asset has the treatment of POCI (purchased / placed loan impaired) placements.

**Financial liabilities** cease to be recognized when the obligation stipulated in the contract is fulfilled, cancelled or expired. In the case where the existing financial liability has been replaced by another obligation towards the same creditor, but under significantly changed conditions or if the terms of the existing obligation have been significantly changed, such replacement or change of terms is treated as a cessation of recognition of the original obligation with the simultaneous recognition of the new obligation, whereby the difference between the original and the new value of liability is recognized in the income statement.

#### 2.8.6. *Restructured Loans*

Where possible, the Group seeks to reprogram or restructure loans rather than realize collaterals. This may involve extending the repayment period or any other modification to the original loan agreement terms. Reprograms can be business or forbearance as defined by the EBA.

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 Group 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 Group 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.

#### 2.8.7. *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 Group 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.

***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 Group has the undisputable 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.

### 2.9. 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 Group has an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Group's and Lessor's RSD 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.

### 2.11. 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.

### 2.12. Investments in subsidiaries

A dependent legal entity is the entity over which the Group has control. Control is established when the Group is exposed, or is entitled to, variable returns on the basis of participating in the entity in which it has invested and has the ability to influence those benefits based on the power it has over the entity in which it has invested.

On 31 December 2018, the Group 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 Group.

### 2.13. 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.

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.

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 licenses | in accordance with the agreed term of use |
| Other intangible assets | 4 - 6 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)

### 2.14. Property, plant, 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 Group 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 Group 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.

Leasehold improvements are depreciated over the period of usage pursuant to the relevant lease contracts.

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.

### 2.15. Impairment of Non-Financial Assets

In accordance with the adopted accounting policy, at each reporting date, the Group's management reviews the carrying amounts of the Group'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)

### 2.16. 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 Group as a Lessee***

Finance leases, which transfer to the Group 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 Group 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 Group as Lessee***

A lease is classified as an operating lease if it does not transfer to the Group 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.

### 2.17. Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Group 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 they were initially recognized for. 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)

### 2.18. Employee benefits

***(a) Employee social Security Taxes and Contributions – Defined Benefit Plans***

In accordance with the Republic of Serbia regulatory requirements, the Group 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 Group 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 Group 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 Labor Law and Collective Bargaining Agreement the Group 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 Group 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 favorable 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 Group. Jubilee awards are paid in the respective amounts of one, two or three average salaries paid by the Group 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 Group 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.

**(d) *Short-term employee benefits***

Each year, Erste Group grants its management members a bonus program. It relates to services provided by Management Board members in the current year ("year of service"). Real payments are conditioned by the performance of Erste Group in the year of service and the next 5 years (the "Effect Period"). In this respect, they are divided into a direct tranche and five demarcated tranches. Fifty percent of bonus is paid in cash and meets the definition of long-term employee benefits under IAS 19. The remaining fifty percent depends on the change in the average price of the shares of Erste Group Bank, AG, and meets the cash-based cash requirements of IFRS 2.

For both parts of the program, the entire bonus is recognized as an expense in relation to an obligation in the year of service. The obligation on the part of payment by shares in cash is recognized in the balance sheet under "Other liabilities". The obligation on the part of employee benefits is recognized in the balance sheet under "Reserves". Expenses, including all subsequent adjustments in relation to an obligation that reflects decisions on the actual amount of the bonus, fulfillment of conditions of effect and change in the price of shares, are shown in the income statement under the "Employee expenses".

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19. Financial Guarantees

In the ordinary course of business, the Group issues financial guarantees, consisting of payment guarantees and performance bonds, 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 Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle 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.

### 2.20. Assets acquired through receivables collection

The Group 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 defense 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 Group and to avoid further deterioration of value.

Assets acquired in such a way can be classified as:
1) Tangible assets held by the Group 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 Group used by the Group are recorded at cost and depreciated in accordance with the Group'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 Group'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).

From the balance sheet date, the Group's management analyses the value of the inventory according to which the assets of the Group 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20. Assets acquired through receivables collection

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.

### 2.21. 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 Group 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 Group'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 31 December 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.

Beginning from the tax period for 2018, taxpayers have been enabled to recognize the effects of change in the accounting policy arising from the first application of IASs or IFRSs, based on which, in accordance with the accounting regulations, correction of the respective positions in the balance sheet is recognized as revenue, i.e. expenditure in the tax balance, starting from the tax period in which that correction was made. Revenues and expenses are recognized in equal amounts in five tax periods.

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)

### 2.21. 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) Indirect Taxes and Contributions

Indirect taxes and contributions 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.

### 2.22. Segment Reporting

The Group'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.

### 2.23. Managed Funds

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

## 3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements requires the Group'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.

### (a) SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI.

When taking into consideration specific features of loans, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the Group upon the early termination. For these purposes, Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level prepayment fees and their acceptance by authorities.

The discrepancy in the interest rate and the period of its update relates to variable interest rates for loans where the reference interest rate is not adjusted in terms of tenor and the update period (such as when the 3M EURIBOR is adjusted more often, i.e. every month or less, e.g. every 6 months) or is the update period determined before the beginning of the interest period (for example, 3MEURIBOR is updated 2 months before the release of the loan and the beginning of the interest period). Such cases need to be assessed by means of a „benchmark test" whether the contracted (undiscounted) cash flow of the loan deviates significantly from the benchmark loan (loan maturity, the same amount, the same currency, but which does not have an interest rate mismatch). Materiality threshold for passing the quantitative benchmark test is a 5% cumulative deviation or 10% periodic deviation. This test is done on a single individual placement on an initial recognition.

For assets with interest mismatches resulting only from prior and average rates (i.e. no mismatches resulting from a tenor different from the reset frequency), SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month.

Upon transition to IFRS 9, the Group tested its placements with contracted "old rates" qualitatively, as well as a number of placements that have contracted interest maturity with the update period, quantitatively and all placements have passed the benchmark test.

Also, the loan portfolio has been tested in respect of the early repayment fee.

The management of the Group believes that all loans meet the SPPI criteria.

## 3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### (a) Business model assessment

For each SPPI-compliant financial asset at initial recognition, Group must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models.

As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected, and a different measurement method may seem to be appropriate. In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

Group, 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 or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model.

The Group estimates that all group loans meet the business model holding in order to collect contracted cash flows.

Business models of the Group:

Business model Corporate - Loans and receivables: Hold to Collect (AC valuation method)
All loans and receivables are held to collect contracted cash flows (principal and interest) over the total duration of placements, i.e. to maturity. There is no trading in placements, that is, there is no placement of loans in order to sell them and realize the profit on the basis of the difference in price.

Business model Real estate - Loans and receivables: Hold to Collect (AC valuation method)
All loans and receivables are approved for the purpose of collecting cash flows during the term of the placement. The basic difference in relation to corporate loans is that loans are granted for the implementation of special projects, so they are approved by special (SPV) companies founded only for the purpose of realizing a specific project. The repayment itself is based exclusively on the proceeds of the project being the subject of financing.

Business model Retail - Loans and receivables: Hold to Collect (AC valuation method)
All loans and receivables are held to collect contracted cash flows (principal and interest) over the total duration of placements, i.e. to maturity. There is no trading in placements, that is, there is no placement of loans in order to sell them and realize the profit on the basis of the difference in price.

Business model Treasury - Debt securities: Hold to Sell (FVPL valuation method)
Financial assets i.e. Debt securities are managed to earn earnings in the form of a price difference.

Business model ALM - Debt securities: Hold to Collect (AC valuation method)
Financial assets i.e. debt securities, in the business model "hold for collection" ("HtC"), is managed to cash flows by collecting contractual cash flows. Realizing the difference in price is not the goal, nor the nature of this business model.

Business model ALM - Debt securities: Hold and Sell (FVOCI valuation methods)
Financial assets i.e. Debt securities in the H&S Holding and Sales model is managed to generate cash flows by collecting contractual cash flows, but also by selling financial assets as well as by achieving price differences.

### (c) Impairment of financial assets

The expected credit loss model is based on judgment because it requires an estimate of a significant increase in credit risk and the measurement of expected losses without some more detailed guidance. In terms of a significant increase in credit risk, the Group has set out specific valuation rules that include quantitative and qualitative criteria. Measurement of expected credit loss involves complex models that rely on historical default and loss rates, their extrapolation in case of insufficient data, individual estimations of credit loss-adjusted cash flows, and probability of scenario realization including forward-looking information.

Detailed disclosure of the identification of a significant increase in credit risk, including collective, individual credit, foresight techniques used to measure the expected loss and default definition, and other aspects of credit risk assessment are given in Note 35.

## 3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### (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 35.4 (sensitivity limits) and 35.10 (fair valuation and levels).

## 4. INTEREST INCOME AND EXPENSES

RSD thousand

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| **Interest income** | | |
| – Banks | 146.002 | 142.972 |
| – Public companies | 146.172 | 125.565 |
| – Corporate customers | 2.490.194 | 2.361.768 |
| – Entrepreneurs | 113.117 | 73.669 |
| – Public sector | 1.659.424 | 1.591.203 |
| – Retail customers | 3.941.956 | 3.364.614 |
| – Non-residents | 21.897 | 35.131 |
| – Agricultural producers | 15.046 | 19.968 |
| – Other customers | 8.699 | 25.218 |
| **Total** | **8.542.507** | **7.740.108** |
| **Interest expenses** | | |
| – Banks | 413.503 | 369.320 |
| – Public companies | 14.274 | 29.432 |
| – Corporate customers | 166.803 | 74.380 |
| – Entrepreneurs | 2.652 | 1.880 |
| – Public sector | 210.194 | 162.678 |
| – Retail customers | 118.940 | 131.341 |
| – Non-residents | 541.449 | 390.589 |
| – Other customers | 203.697 | 226.546 |
| **Total** | **1.671.512** | **1.386.166** |
| **Net interest income** | **6.870.995** | **6.353.942** |

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

RSD thousand

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| **Interest income** | | |
| Cash and cash funds held with the central bank | 116.021 | 116.253 |
| Securities valued at amortised cost | 791.791 | - |
| Bonds and other securities with fixed yield – held to maturity | - | 742.723 |
| Securities valued at FV through other comprehensive income | 578.540 | - |
| Bonds and other securities with fixed yield – available for sale | - | 484.189 |
| Securities valued at FV through profit and loss | 264.338 | - |
| Bonds and other securities with fixed yield – trading assets | - | 289.977 |
| Placements and receivables due from customers | 5.922.295 | 5.293.316 |
| Placements and receivables due from financial organizations | 310.518 | 24.260 |
| Interest-bearing swap | - | 26.952 |
| Other interest income | 559.003 | 762.438 |
| **Total** | **8.542.507** | **7.740.108** |
| **Interest expenses** | | |
| Subordinated liabilities | 82.512 | 59.197 |
| Deposits due to banks | 566.741 | 320.003 |
| Deposits due to customers | 855.699 | 739.197 |
| Securities valued at amortised cost | 103.989 | - |
| Securities held to maturity | - | 96.613 |
| Securities valued at FV through other comprehensive income | 31.629 | - |
| Securities available for sale | - | 40.089 |
| Securities valued at FV through profit and loss | 30.889 | - |
| Interest-bearing swap | - | 20.805 |
| Other liabilities of interest | 54 | 110.262 |
| **Total** | **1.671.512** | **1.386.166** |
| **Net interest income** | **6.870.995** | **6.353.942** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 5. FEE AND COMMISSION INCOME AND EXPENSES

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| **Fee and commission income** | | |
| Domestic and foreign payment transaction services | 1.426.915 | 1.293.211 |
| Lending activities | 7.351 | 3.805 |
| Deposits operation | 814.101 | 720.980 |
| Payment cards operations | 52.569 | 51.436 |
| Guarantees and other sureties | 148.661 | 135.558 |
| Other fees and commissions | 102.992 | 89.664 |
| **Total** | **2.552.589** | **2.294.654** |
| | | |
| **Fee and commission expenses** | | |
| Services of deposits | 2 | - |
| Domestic and foreign payment transaction services | 571.134 | 501.746 |
| Other fees and commissions | 376.286 | 286.145 |
| **Total** | **947.422** | **787.891** |
| | | |
| **Net fee and commission income** | **1.605.167** | **1.506.763** |

## 6. NET GAINS FROM CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

| | RSD thousand | |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| **Gains from change in fair value of financial instruments** | | |
| Gains on the fair value adjustment of derivatives | 455.935 | 491.972 |
| Gains on the fair value adjustments of financial assets valued at FVPL | 166.820 | 161.649 |
| **Total** | **622.755** | **653.621** |
| | | |
| **Losses from change in fair value of financial instruments** | | |
| Losses on the fair value adjustment of derivatives | 397.083 | 327.502 |
| Losses on the fair value adjustments of financial assets valued at FVPL | 105.120 | 139.407 |
| Losses on the fair value adjustments of financial liabilities valued at FVPL | 6.796 | - |
| **Total** | **508.999** | **466.909** |
| | | |
| **Net gains from change in fair value of financial instruments** | **113.756** | **186.712** |

## 7. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS VALUED AT FV

| | 31.12.2018. | RSD thousand 31.12.2017. |
|---|---|---|
| **Gains from derecognition of financial instruments** | | |
| Gains from derecognition of financial instruments valued at FV through profit and loss | 71.685 | 95.519 |
| Gains from derecognition of financial instruments valued at FV through other comprehensive income | 7.724 | - |
| **Total** | **79.409** | **95.519** |
| **Losses from derecognition of financial instruments** | | |
| Gains from derecognition of financial instruments valued at FV through profit and loss | 7.485 | 927 |
| **Total** | **7.485** | **927** |
| **Net gains from derecognition of financial instruments valued at FV** | **71.924** | **94.592** |

## 8. NET GAINS FROM HEDGING

| | 31.12.2018. | RSD thousand 31.12.2017. |
|---|---|---|
| **Gains from hedging** | | |
| Gains from changes in value of placements and receivables | 1.677 | 2.715 |
| Gains from changes in value of derivates | - | - |
| **Total** | **1.677** | **2.715** |
| **Losses from hedging** | | |
| Losses from changes in value of placements and receivable | 478 | 648 |
| Losses from changes in value of derivates | - | - |
| **Total** | **478** | **648** |
| **Net gains from hedging** | **1.199** | **2.067** |

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

## 9. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

| | 31.12.2018. | RSD thousand 31.12.2017. |
|---|---|---|
| Positive foreign exchange difference | 5.782.598 | 9.572.591 |
| Negative foreign exchange difference | (5.266.013) | (6.159.269) |
| Positive currency clause effects | 1.009.569 | 973.216 |
| Negative currency clause effects | (1.105.059) | (4.172.540) |
| **Net Income of Foreign Exchange and currency clause effects** | **421.095** | **213.998** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 10. NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSET NOT VALUED AT FVTPL

| | 31.12.2018. | RSD thousand<br>31.12.2017. |
|---|---|---|
| **Gains from impairment of financial asset not valued at FVTPL** | | |
| Gains from reversal of indirect write-offs of financial asset valued at amortized cost | 5.450.356 | 7.475.707 |
| Gains from reversal of impairment of financial assets valued at FV through other comprehensive result | 64.753 | - |
| Gains from reversal of provisions for off-balance sheet items | 684.607 | 2.430.790 |
| Gains from the modification of financial instruments | 2.050 | - |
| **Total** | **6.201.766** | **9.906.497** |
| **Losses from impairment of financial asset not valued at FVTPL** | | |
| Losses from indirect write-offs of financial asset valued at amortized cost | 5.676.614 | 7.379.374 |
| Losses from impairment of financial assets valued at FV through other comprehensive result | 14.133 | - |
| Losses from provisions for off-balance sheet items | 591.889 | 2.485.813 |
| Losses from the modification of financial instruments | 82.261 | - |
| **Total** | **6.364.897** | **9.865.187** |
| **Net income/(expense) from impairment of financial assets and credit risk off-balance sheet items** | **(163.131)** | **41.310** |

## 10. NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSET NOT VALUED AT FVTPL (continued)

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| **Losses from impairment of financial assets and credit risk off-balance sheet items** | | |
| Losses from indirect write-offs of placements of balance sheet items: | | |
| – derivate receivables (Note 19) | | |
| – securities (Note 20) | (5.582) | (45.438) |
| – loans and advances to banks and other financial institutions (Note 21) | (3.827) | (6.539) |
| - loans and advances to customers (Note 22) | (3.170.906) | (2.455.390) |
| – other assets (Note 25) | (58.772) | (80.695) |
| **Total losses from impairment of financial assets and credit risk off-balance sheet items** | **(3.239.087)** | **(2.588.062)** |
| Provisions for impairment of off-balance sheet assets (Note 30) | (149.162) | (2.485.813) |
| **Total losses from impairment of financial assets and credit risk off-balance sheet items** | **(3.388.249)** | **(5.073.875)** |
| **Gains from impairment of financial assets and credit risk off-balance sheet items** | | |
| Gains from reversal of indirect write-offs of placements of balance sheet items: | | |
| – derivate receivables (Note 19) | | |
| – securities (Note 20) | 38.225 | 924 |
| – loans and advances to banks and other financial institutions (Note 21) | 5.664 | 5.853 |
| - loans and advances to customers (Note 22) | 2.964.938 | 2.647.829 |
| – other assets (Note 25) | 36.716 | 28.428 |
| **Total gains from impairment of financial assets and credit risk off-balance sheet items** | **3.045.543** | **2.683.034** |
| Provisions for impairment of off-balance sheet assets (Note 30) | 241.881 | 2.430.790 |
| **Total gains from impairment of financial assets and credit risk off-balance sheet items** | **3.287.424** | **5.113.824** |
| **Net loss from impairment of financial asset not valued at FVTPL** | **(100.825)** | **39.949** |

## 11. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS VALUED AT AMORTIZED COST

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| **Gains from derecognition of financial instruments valued at amortized cost** | | |
| Gains from derecognition - stage 3 and POCI | 14.824 | - |
| Gains from derecognition - other stages | 294 | - |
| **Total:** | **15.118** | - |
| **Losses from derecognition of financial instruments valued at amortized cost** | | |
| Gains from derecognition - stage 3 and POCI | 23 | - |
| **Total:** | **23** | - |
| **Net gains from derecognition of financial instruments valued at amortized cost** | **15.095** | **-** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 12. OTHER OPERATING INCOME

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| Income from consulting services | 18.656 | 20.049 |
| Income from rent | 6.851 | 13.256 |
| Income from IT services | 9.674 | 7.432 |
| Other income | 67.289 | 17.153 |
| Dividend income and other income from shares | 368 | 249 |
| **Total** | **102.838** | **58.139** |

## 13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSES

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| Cost of net salaries | 1.370.409 | 1.253.054 |
| The costs of taxes and contributions payable by employee | 516.154 | 475.594 |
| Redundancy costs, jubilee awards, bonuses and reimbursements | 220.493 | 212.718 |
| Other personnel expense | 50.211 | 43.435 |
| Provision for retirement benefits (Note 30) | 22.648 | 21.405 |
| **Total** | **2.179.915** | **2.006.206** |

## 14. DEPRECIATION COSTS

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| Depreciation expense: | | |
| – Tangible assets (Note 23) | 205.930 | 166.309 |
| – Intangible assets (Note 23) | 120.584 | 127.245 |
| **Total** | **326.514** | **293.554** |

## 15. OTHER INCOME

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| Income from collection of written receivables | 320.755 | 89.395 |
| Reversal of unused provision for liabilities | 11.363 | 2.736 |
| Reversal of unused other provision | 4.948 | 1.279 |
| Income from sale of properties and intangible assets | 14.610 | 68.844 |
| Other income | 36.744 | 33.689 |
| **Total** | **388.420** | **195.944** |

## 16. OTHER EXPENSES

| | 31.12.2018. | RSD thousand 31.12.2017. |
|---|---|---|
| Professional services | 1.226.497 | 1.189.064 |
| Donations and sponsorships | 36.643 | 29.520 |
| Advertising and marketing | 256.810 | 264.649 |
| Post and Telecommunication services | 64.000 | 57.243 |
| Insurance premiums | 505.220 | 426.394 |
| Rental cost | 333.267 | 348.136 |
| Material costs | 110.788 | 132.700 |
| Taxes and contributions | 121.985 | 111.006 |
| Maintenance of tangible assets and software | 404.334 | 379.977 |
| Losses on sale and disposal of fixed and intangible assets | 3.242 | 9.077 |
| Payroll contributions payable by employer | 302.281 | 285.092 |
| Per diems and travel expenses | 103.530 | 76.588 |
| Education and counselling | 25.094 | 47.323 |
| Provision expenses for litigations (Note 30) | 71.300 | 20.209 |
| Other | 164.746 | 95.413 |
| **Total** | **3.729.738** | **3.472.391** |

## 17. INCOME TAXES

### (a) Components of Income Tax

Total tax (expense)/benefit is comprised of:

| | 31.12.2018. | RSD thousand 31.12.2017. |
|---|---|---|
| Current income tax | (264.750) | (166.319) |
| Income from deferred tax assets and decrease of deferred tax liabilities | 37.637 | 39 |
| Loss from deferred tax assets and increase of deferred tax liabilities | - | (43.015) |
| **Total** | **(227.113)** | **(209.295)** |

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

| | 31.12.2018. | RSD thousand 31.12.2017. |
|---|---|---|
| **Profit before tax** | **3.191.191** | **2.881.317** |
| **Income tax at the rate of 15%** | **478.679** | **432.198** |
| Tax effects of expenses not recognized for the tax purposes | 34.330 | 48.914 |
| Utilized tax credit for investments in fixed assets | - | (30.821) |
| Tax effects of non-taxable income (interest on securities issued by the Republic of Serbia, Autonomous Province, local self-government or NBS) | (244.465) | (241.841) |
| Tax effects of first implementation of IFRS 9 | (41.313) | |
| Other | (3.778) | 846 |
| **Total expense tax reported in the Income Statement** | **227.113** | **209.296** |
| ***Effective tax rate*** | **7,12%** | **7,26%** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 17. INCOME TAXES

### (c) Deferred Tax Components

| | | 2018<br>RSD in thousand |
|---|---|---|
| | **Temporary difference amount** | **Deferred tax amount** |
| Deductible temporary difference for difference between the carrying value and tax base value of fixed assets – deferred tax assets | 94.198 | 14.130 |
| Deductible temporary difference for adjustment of securities to fair value – deferred tax liabilities | (562.273) | (84.341) |
| Deductible temporary difference for prior years' tax loss carryforwards – deferred tax assets | (4.086) | (613) |
| Deductible temporary difference for provisions for litigation - deferred tax assets | 244.714 | 36.707 |
| Deductible temporary difference for provisions for jubilee awards - deferred tax assets | 110.538 | 16.581 |
| Deductible temporary difference based on Impairment loss that will be recognized in tax balance in the following years total - deferred tax assets | 487 | 73 |
| Deductible temporary difference for provisions for retirement benefits - deferred tax assets | 75.784 | 11.368 |
| Deductible temporary difference based on retirement provisions – actuarial gains - deferred tax assets | (42.680) | (6.402) |
| Deductible temporary difference on the basis of the provision of state securities - deferred tax liability | - | - |
| Temporary differences based on the effect of IFRS 9 | 220.336 | 33.050 |
| **Balance as at 31 December** | **137.017** | **20.553** |

| | | **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 | 53.741 | 8.061 |
| Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities | (448.441) | (67.266) |
| Deductible temporary difference based on transferred tax losses from previous years - deferred tax assets | - | - |
| Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets | 175.183 | 26.277 |
| Deductible temporary difference based on provisions for litigations - deferred tax assets | 1.292 | 194 |
| Deductible temporary difference based on provisions for jubilee awards- deferred tax assets | 122.805 | 18.421 |
| Deferred temporary difference on the basis of the provision for pensions - deferred tax assets | 89.374 | 13.406 |
| **Balance as at 31 December** | **(6.047)** | **(907)** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 17. INCOME TAXES (continued)

### d) Changes in deferred taxes

| | | RSD thousand |
|---|---|---|
| | **2018** | **2017** |
| Balance of deferred tax assets/(liabilities) as at 1 January | (2.987) | 61.745 |
| The effect of temporary tax differences credited to the Income Statement | 37.636 | (42.976) |
| The effect of temporary tax differences credited to the capital | (14.096) | (21.756) |
| **Balance of deferred tax assets/(liabilities) as at 31 December** | **20.553** | **(2.987)** |

Creation of deferred tax assets in the amount of RSD 20.553 thousand (and the abolition of previously recognized deferred tax liabilities in the amount of RSD 2.987 thousand) had an effect on the income statement in the amount of RSD 37.636 thousand and the effect through capital in the amount of RSD 14.096 thousand.

During 2018, the Group made a profit after tax in the amount of RSD 2.964.079 thousand. This amount will be allocated in accordance with the Decision at the forthcoming Group assembly meeting.

## 18. CASH AND BALANCES WITH CENTRAL BANK

| | | RSD thousand |
|---|---|---|
| | **2018** | **2017** |
| **In RSD** | | |
| Current account | 4.730.799 | 8.681.382 |
| Cash on hand | 2.159.642 | 1.610.883 |
| Deposits of surplus liquid assets | 5.000.000 | - |
| Receivables for accrued interest, fee and commission on cash and funds with NBS | 243 | - |
| | **11.890.684** | **10.292.265** |
| **In foreign currency** | | |
| Cash on hand | 1.079.670 | 1.188.011 |
| Obligatory foreign currency reserve held with NBS | 11.670.903 | 9.293.751 |
| | **12.750.573** | **10.481.762** |
| Gold and other precious metals | - | - |
| **Balance as at 31 December** | **24.641.257** | **20.774.027** |

Obligatory reserve represents the minimum reserve in RSD set aside in accordance with the National Bank of Serbia on mandatory reserves with the National Bank of Serbia "Official Gazette of the Republic of Serbia", no. 76/2018, which provides that banks calculate obligatory Reserves at the rate of 5% on the average daily balance of local currency liabilities with agreed maturity up to two years, or at the rate of 0% on the average daily balance local currency liabilities with agreed maturity of over two years, during one calendar month.

During the period the Group is required to maintain the average daily balance of required reserve on its bank account.

The calculated obligatory reserve whose level has to be maintained on the bank account for the period from 18 December 2018 to 17 January 2019 amounted RSD 8.898.034 thousand.

The National Bank of Serbia pays interest on the amount of the average daily balance of the allocated dinar mandatory reserve in the accounting period that does not exceed the amount of the calculated RSD mandatory reserve at the interest rate of 1,25% annually.

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 no. 76/2018, 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 calculated foreign currency obligatory reserves for the period from 18 December 2018 to 17 January 2019 amounted EUR 98.743 thousand.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 19. DERIVATE RECEIVABLES

| | | RSD thousand |
|---|---|---|
| | **2018** | **2017** |
| **In RSD** | | |
| Financial assets at FV through profit and loss | | |
| – FV of derivates intended for trading (FVTPL) | 10.160 | 5.947 |
| | **10.160** | **5.947** |
| **In foreign currency** | | |
| Financial assets at FV through profit and loss | | |
| – FV of derivates intended for trading (FVTPL) | 171.044 | 58.717 |
| | **171.044** | **58.717** |
| **Total financial assets** | **181.204** | **64.664** |
| Minus: Impairment allowance (FVTPL) | - | - |
| **Balance as at 31 December** | **181.204** | **64.664** |

## 20. SECURITIES

| | 2018 | RSD thousand 2017 |
|---|---|---|
| **In RSD** | | |
| *Debt securities* | | |
| – bonds (AC) | 9.972.528 | - |
| – bonds (HTM) | - | 7.861.382 |
| – bonds (FVTPL) | 4.062.753 | - |
| – bonds (HFT) | - | 4.624.199 |
| – bonds (FVTOCI) | 9.004.931 | - |
| – bonds (AFS) | - | 5.483.553 |
| *Equity securities* | | |
| – shares in equity (FVTPL) | 28.748 | - |
| – shares in equity (AFS) | - | 28.804 |
| | **23.068.960** | **17.997.938** |
| **In foreign currency** | | |
| *Debt securities* | | |
| – bonds (AC) | 856.033 | - |
| – bonds (HTM) | - | 468.487 |
| – bonds (FVTPL) | 5.837.167 | - |
| – government bonds (FVTPL) | 129.811 | - |
| – bonds (HFT) | - | 6.850.601 |
| – bonds (FVTOCI) | 5.049.334 | - |
| – government bonds (FVTOCI) | 159.225 | - |
| – government bonds (AFS) | - | 6.805.546 |
| *Equity securities* | | |
| – other securities available for sale - VISA shares (FVTOCI) | 67.261 | - |
| – other securities available for sale (AFS) | - | 170.697 |
| | **12.098.831** | **14.295.331** |
| **Total** | **35.167.791** | **32.293.269** |
| Minus: Impairment allowance (FVTPL) | (13.897) | (45.424) |
| **Balance as at 31 December** | **35.153.894** | **32.247.845** |

In addition to securities intended for trading, all securities listed in the table above were allocated to the impairment stage 1 throughout the year.

Of all listed securities, bonds and Visa shares in foreign currency are quoted on the stock exchange.

The changes in the impairment allowance accounts during the year are shown in the following table:

RSD thousand

| | Balance as at 1 January 2018 | Increase due to recognition and acquisition | Decrease due to derecognition | Decrease due to credit risk change | Foreign exchange differences | Balance as at 31 December 2018 |
|---|---|---|---|---|---|---|
| **Changes in impairment allowances of financial assets** | | | | | | |
| **Stage 1** | **46.547** | **5.583** | **10.055** | **28.170** | **(8)** | **13.897** |
| Public sector | 46.547 | 5.583 | 10.055 | 28.170 | (8) | 13.897 |
| **TOTAL** | **46.547** | **5.583** | **10.055** | **28.170** | **(8)** | **13.897** |

The transition effects of IFRS 9 amount is shown in the column "Balance as at 1 January 2018". More details on the effects of transition to IFRS 9 can be found in Note 2, within the review of significant accounting policies i.e. transition tables.

## 21. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

RSD thousand

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Short-term | Long-term | Total | Short-term | Long-term | Total |
| **In RSD** | | | | | | |
| Loans | - | 311 | **311** | - | 7.104 | **7.104** |
| Deposits | 700.243 | - | **700.243** | - | - | **-** |
| | **700.243** | **311** | **700.554** | **-** | **7.104** | **7.104** |
| **Foreign currency** | | | | | | |
| Foreign currency bank account | 491.306 | - | **491.306** | 1.151.048 | | 1.151.048 |
| Loans | - | 44.083 | **44.083** | 2.690 | 322.234 | 324.924 |
| Deposits | 4.728 | - | **4.728** | 709.981 | - | 709.981 |
| Other placements | 255.130 | - | **255.130** | 18.600 | - | 18.600 |
| | **751.164** | **44.083** | **795.247** | **1.882.319** | **322.234** | **2.204.553** |
| **Gross loans and receivables** | **1.451.407** | **44.394** | **1.495.801** | **1.882.319** | **329.338** | **2.211.657** |
| Less: Allowance for impairment | | | (2.929) | | | (12.687) |
| | | | **(2.929)** | | | **(12.687)** |
| **Balance as at 31 December** | | | **1.492.872** | | | **2.198.970** |

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

**21. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)**

**a) Overview by types of loan users and deposits by impairment stages**

**RSD thousand**

| | Gross book value | | | | | Impairment allowance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **In RSD** | | | | | | | | | | |
| Banks in the country | 700.306 | - | - | - | **700.306** | (2.417) | - | - | - | **(2.417)** |
| Insurance companies | 95 | 151 | - | - | **246** | (1) | (2) | - | - | **(3)** |
| Financial leasing | 65 | - | - | - | **65** | (1) | - | - | - | **(1)** |
| Foreign banks | (63) | - | - | - | **(63)** | - | - | - | - | - |
| | **700.403** | **151** | **-** | **-** | **700.554** | **(2.419)** | **(2)** | **-** | **-** | **(2.421)** |
| **In foreign currency** | | | | | | | | | | |
| Financial leasing | 44.083 | - | - | - | **44.083** | (254) | - | - | - | **(254)** |
| Auxiliary activities in providing financial and insurance services | 25.340 | - | - | - | **25.340** | (33) | - | - | - | **(33)** |
| Foreign banks | 725.824 | - | - | - | **725.824** | (221) | - | - | - | **(221)** |
| | **795.247** | **-** | **-** | **-** | **795.247** | **(508)** | **-** | **-** | **-** | **(508)** |
| **Balance as at 31 December** | **1.495.650** | **151** | **-** | **-** | **1.495.801** | **(2.927)** | **(2)** | **-** | **-** | **(2.929)** |

Loans with a currency clause are included in the overview of loans and deposits in foreign currency.

## 21. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

### b) Transfer of exposure to loans and receivables from banks and other financial institutions between stages

RSD thousand

| | Gross book value | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Transfer between stages 1 and 2 | | Transfer between stages 2 and 3 | | Transfer between 1 and 3 | | POCI | |
| | From stage 1 to stage 2 | From stage 2 to stage 1 | From stage 2 to stage 3 | From stage 3 to stage 2 | From stage 1 to stage 3 | From stage 3 to stage 1 | To Defaulted from Non-Defaulted | To Non-Defaulted from Defaulted |
| Insurance companies | - | 87 | - | - | - | - | - | - |
| **Balance as at 31 December** | **-** | **87** | **-** | **-** | **-** | **-** | **-** | **-** |

### c) 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 31 December 2018 and 31 December 2017:

RSD thousand

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| Without defined maturity | 517.129 | 1.173.568 |
| Under 30 days | 700.021 | 693.977 |
| From 1 to 3 months | - | - |
| From 3 months to 12 months | 234.257 | 13.961 |
| Over a year | 44.394 | 330.151 |
| | **1.495.801** | **2.211.657** |

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

**Changes in impairment allowances and provisions of financial assets**

RSD thousand

| | Balance as at 1 January 2018 | Increase due to recognition and acquisition | Decrease due to derecognition | Increase due to credit risk change | Decrease due to credit risk change | Foreign exchange differences | Other changes | Balance as at 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| **Changes in impairment allowances of financial assets** | | | | | | | | |
| **Stage 1** | **11.619** | **2.433** | **2.692** | **1.394** | **2.958** | **(746)** | **(6.123)** | **2.927** |
| Banks in the country | 2.315 | 2.117 | 2.020 | 135 | 54 | (75) | (1) | 2.417 |
| Insurance companies | - | - | - | 1 | 4 | - | 4 | 1 |
| Financial leasing | 1.139 | 200 | 111 | 61 | 1.033 | 2 | (3) | 255 |
| Auxiliary activities in providing financial and insurance services | 7.615 | - | 558 | 1 | 901 | (10) | (6.114) | 33 |
| Other credit and financing services | 278 | - | 2 | 618 | 230 | (664) | - | - |
| Foreign banks | 272 | 117 | 2 | 578 | 736 | 1 | (9) | 221 |
| **Stage 2** | **205** | **-** | **-** | **-** | **14** | **(189)** | **-** | **2** |
| Insurance companies | 8 | - | - | - | 6 | - | - | 2 |
| Other credit and financing services | 197 | | | | 8 | (189) | | - |
| **Stage 3** | **316** | | | | | **(316)** | | **-** |
| Other credit and financing services | 316 | | | | | (316) | | - |
| **TOTAL** | **12.140** | **2.433** | **2.692** | **1.394** | **2.972** | **(1.251)** | **(6.123)** | **2.929** |

The transition effects of IFRS 9 amount is shown in the column "Balance as at 1 January 2018". More details on the effects of transition to IFRS 9 can be found in Note 2, within the review of significant accounting policies i.e. transition tables.

## 22. LOANS AND RECEIVABLES TO CUSTOMERS

RSD thousand

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Short-term | Long-term | Total | Short-term | Long-term | Total |
| **In RSD** | | | | | | |
| Given loans | 2.464.469 | 30.505.580 | **32.970.049** | 2.234.464 | 23.109.007 | **25.343.471** |
| Given deposits | | | **-** | | | **-** |
| Other placements | 3.448.762 | 5.607.961 | **9.056.723** | 2.930.008 | 4.409.144 | **7.339.152** |
| Deferred interest receivables | (252.877) | (273.991) | **(526.868)** | (228.546) | (270.973) | **(499.519)** |
| | **5.560.354** | **35.839.550** | **41.499.904** | **4.935.926** | **27.247.178** | **32.183.104** |
| **In foreign currency** | | | | | | |
| Given loans | 10.320.621 | 97.479.604 | **107.800.225** | 8.345.517 | 73.729.282 | **82.074.799** |
| Given deposits | 89.432 | - | **89.432** | 85.735 | - | **85.735** |
| Other placements | 409.529 | - | **409.529** | 339.585 | 48.454 | **388.039** |
| | **10.819.582** | **97.479.604** | **108.299.186** | **8.770.837** | **73.777.736** | **82.548.573** |
| **Gross loans and receivables** | **16.732.813** | **133.593.145** | **149.799.090** | **13.706.763** | **101.024.914** | **114.731.677** |
| *Less: Impairment allowance* | | | | | | |
| *– Individual assessment* | | | (1.232.329) | | | (2.068.517) |
| *– Collective assessment* | | | (2.220.274) | | | (2.190.431) |
| | | | **(3.452.603)** | | | **(4.258.948)** |
| **Balance as at 31 December** | | | **146.346.487** | | | **110.472.729** |

## 22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

### (a) Overview by types of loan and deposits users by impairment stages

**RSD thousand**

| | Gross book value | | | | | Impairment allowance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **In RSD** | | | | | | | | | | |
| Public enterprises | 804.541 | 3.761 | 8.552 | - | **816.855** | (6.107) | (338) | (8.552) | - | **(14.997)** |
| Other companies | 9.159.199 | 553.885 | 165.550 | - | **9.878.634** | (110.039) | (19.403) | (152.035) | - | **(281.477)** |
| Entrepreneurs | 1.149.553 | 52.917 | 23.762 | - | **1.226.232** | (8.137) | (4.339) | (15.787) | - | **(28.264)** |
| Public sector | 811.349 | (47) | - | - | **811.302** | (814) | - | - | - | **(814)** |
| Retail customers | 26.590.305 | 1.239.503 | 662.321 | 34.692 | **28.526.822** | (220.691) | (205.888) | (494.317) | (1.397) | **(922.293)** |
| Foreign entities | 5.185 | 24 | 20 | - | **5.229** | (94) | (1) | (18) | - | **(113)** |
| Farmers | 60.080 | 7.386 | 1.691 | - | **69.157** | (1.988) | (842) | (1.645) | - | **(4.475)** |
| Other customers | 80.487 | 1.348 | 83.838 | - | **165.673** | (1.324) | (12) | (77.410) | - | **(78.746)** |
| | **38.660.699** | **1.858.777** | **945.735** | **34.692** | **41.499.904** | **(349.196)** | **(230.822)** | **(749.764)** | **(1.397)** | **(1.331.179)** |
| **In foreign currency** | | | | | | | | | | |
| Public enterprises | 2.538.804 | 136.041 | - | - | **2.674.845** | (11.719) | (74.955) | - | - | **(86.674)** |
| Other companies | 64.045.289 | 2.219.388 | 503.095 | 141.674 | **66.909.446** | (464.529) | (307.841) | (369.736) | (101.871) | **(1.243.977)** |
| Entrepreneurs | 843.443 | 43.661 | 3.605 | 99 | **890.808** | (6.290) | (1.773) | (2.241) | - | **(10.304)** |
| Public sector | 1.669.280 | 26.928 | - | - | **1.696.208** | (11.487) | (357) | - | - | **(11.844)** |
| Retail customers | 33.273.943 | 1.536.604 | 595.801 | 117.351 | **35.523.699** | (72.368) | (262.214) | (352.277) | (16.159) | **(703.018)** |
| Foreign entities | 206.882 | 30.760 | - | - | **237.642** | (3.559) | (4.693) | - | - | **(8.252)** |
| Farmers | 135.072 | 22.133 | 37.852 | - | **195.057** | (7.728) | (4.645) | (25.359) | - | **(37.732)** |
| Other customers | 147.031 | 2.091 | 22.359 | - | **171.481** | (1.238) | (16) | (18.369) | - | **(19.623)** |
| | **102.859.744** | **4.017.606** | **1.162.712** | **259.124** | **108.299.186** | **(578.918)** | **(656.494)** | **(767.982)** | **(118.030)** | **(2.121.424)** |
| **Balance as at 31 December** | **141.520.443** | **5.876.383** | **2.108.446** | **293.816** | **149.799.090** | **928.114** | **887.316** | **1.517.746** | **119.427** | **3.452.603** |

Bank evaluates all loans at amortized cost.

**22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)**

**b) Transfer of exposure to loans and receivables from customers by impairment stages**

| | Gross book value | | | | | |
|---|---|---|---|---|---|---|
| | Transfer between stages 1 and 2 | | Transfer between stages 2 and 3 | | Transfer between stages 1 and 3 | |
| | From stage 1 to stage 2 | From stage 2 to stage 1 | From stage 2 to stage 3 | From stage 3 to stage 2 | From stage 1 to stage 3 | From stage 3 to stage 1 |
| Construction | 6.628 | 2.150 | - | - | 348 | - |
| Agriculture and food industry | 10.725 | 82.113 | - | 2.321 | - | - |
| Entrepreneurs | 32.341 | 45.569 | 6.453 | 1 | 5.422 | - |
| Manufacturing industry | 18.157 | 166.270 | 2.309 | - | 1.705 | - |
| Production and supply of electricity | 129.217 | 97.527 | - | - | - | - |
| Sector of other customers | 13.489 | 79.557 | - | 835 | - | 1.155 |
| Retail | 777.004 | 746.051 | 152.593 | 49.172 | 236.506 | 37.167 |
| Trade | 135.608 | 365.701 | 455 | 466 | 48.041 | - |
| Services and tourism | 3.303 | 1.485.114 | 13.754 | 826 | 764 | - |
| **Balance as at 31 December** | **1.126.472** | **3.070.051** | **175.564** | **53.621** | **292.786** | **38.322** |

## 22. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

### c) Maturity of loans and receivables to banks and other financial services

Maturity of loans and receivables to banks and other financial institutions based on the remaining period on the balance sheet date to the contractual maturity date, as at 31 December 2018 and 31 December 2017, is as follows:

**RSD thousand**

| | **31.12.2018.** | **31.12.2017.** |
|---|---|---|
| Without defined maturity | 1.089.205 | 469.619 |
| Under 30 days | 590.604 | 269.022 |
| From 1 to 3 months | 1.202.396 | 754.074 |
| From 3 to 12 months | 13.597.731 | 12.213.341 |
| Over 1 year | 133.319.154 | 101.025.621 |
| | **149.799.090** | **114.731.677** |

## 22. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

### Changes in impairment allowances and provision of financial assets

RSD thousand

| | Balance as at 1 January 2018 | Increase due to recognition and acquisition | Decrease due to derecognition | Increase due to credit risk change | Decrease due to credit risk change | Change due to modification | Decrease due to direct write-offs | Change due to foreign exchange differences | Other changes | Balance as at period end |
|---|---|---|---|---|---|---|---|---|---|---|
| **Changes in impairment allowances of financial assets** | | | | | | | | | | |
| **Impairment stage 1** | **1.040.425** | **492.395** | **365.310** | **807.927** | **1.299.686** | **(689)** | **4** | **(3.323)** | **256.380** | **928.114** |
| Public enterprises | 15.385 | 8.228 | 2.561 | - | 21.932 | - | - | 4.703 | 14.004 | 17.826 |
| Other companies | 572.293 | 309.516 | 214.429 | 303.423 | 514.792 | (510) | - | (8.747) | 127.815 | 574.568 |
| Entrepreneurs | 12.855 | 10.551 | 2.920 | 20.432 | 34.750 | - | - | 1.541 | 6.718 | 14.427 |
| Public sector | 52.170 | 738 | 13.947 | 1.354 | 22.664 | - | - | (444) | (4.906) | 12.301 |
| Retail customers | 386.587 | 161.900 | 130.806 | 481.247 | 703.723 | (179) | 4 | (14.314) | 112.351 | 293.059 |
| Foreign entities | 87 | - | - | 671 | 581 | - | - | 3.307 | 169 | 3.653 |
| Other customers | 1.047 | 1.462 | 647 | 800 | 1.244 | - | - | 10.632 | 229 | 12.280 |
| **Impairment stage 2** | **774.782** | **226.373** | **135.365** | **407.322** | **216.292** | **3** | **37** | **2.910** | **(172.380)** | **887.316** |
| Public enterprises | 64.560 | - | - | 7.018 | 199 | - | - | 3.741 | 174 | 75.293 |
| Other companies | 149.242 | 138.784 | 21.368 | 140.950 | 22.508 | 3 | - | 2.474 | (60.333) | 327.244 |
| Entrepreneurs | 10.848 | 4.223 | 2.479 | 3.961 | 2.116 | - | - | 59 | (8.384) | 6.112 |
| Public sector | 9.860 | 358 | - | - | 249 | - | - | (340) | (9.271) | 357 |
| Retail customers | 539.812 | 83.001 | 111.454 | 255.329 | 191.161 | - | 37 | (3.023) | (104.365) | 468.102 |
| Foreign entities | 170 | - | - | - | 0 | - | - | - | 4.528 | 4.698 |
| Other customers | 290 | 7 | 64 | 64 | 59 | - | - | - | 5.271 | 5.509 |
| **Impairment stage 3** | **1.584.790** | **569.136** | **202.624** | **486.230** | **263.884** | **(801)** | **619.468** | **10.274** | **(45.906)** | **1.517.747** |
| Other companies | 439.744 | 380.748 | 101.817 | 2.297 | 19.734 | (801) | 134.548 | (818) | (43.300) | 521.771 |
| Entrepreneurs | 4.435 | 5.042 | - | 9.298 | 2.996 | - | 6.483 | 5.179 | 3.553 | 18.028 |
| Public sector | - | - | - | 245 | - | - | - | (245) | - | - |
| Retail customers | 892.917 | 183.343 | 71.130 | 444.964 | 241.154 | - | 368.751 | 6.236 | 169 | 846.594 |
| Foreign entities | 22 | 3 | - | - | - | - | - | - | (7) | 18 |
| Other customers | 247.670 | - | 29.677 | 29.426 | - | - | 109.685 | (78) | (6.321) | 131.335 |
| **POCI** | 148.307 | 5.229 | 40.260 | 176.294 | 441.516 | (1.538) | 30.149 | (305) | 303.364 | 119.426 |
| Other companies | 132.779 | 626 | 39.759 | 165.415 | 290.323 | - | 27.805 | (273) | 161.210 | 101.871 |
| Entrepreneurs | 1.972 | - | - | 2.504 | 2.268 | - | 2.344 | (1) | 138 | - |
| Retail customers | 13.057 | 4.603 | 2 | 4.361 | 6.795 | (1.538) | - | (31) | 3.900 | 17.555 |
| Other customers | 499 | - | 499 | 4.014 | 142.130 | - | - | - | 138.116 | - |
| **TOTAI** | **3.548.303** | **1.293.133** | **743.559** | **1.877.773** | **2.221.378** | **(3.025)** | **649.658** | **9.557** | **341.458** | **3.452.603** |

The transition effects of IFRS 9 amount is shown in the column "Balance as at 1 January 2018". More details on the effects of transition to IFRS 9 can be found in Note 2, within the review of significant accounting policies i.e. transition tables.

## 22. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

### d) 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 31 December 2018 and 31 December 2017, is significant for the following activities:

RSD thousand

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| Trade | 13.754.076 | 11.531.156 |
| Manufacturing industry | 16.573.709 | 14.730.940 |
| Construction | 13.743.361 | 10.849.591 |
| Production and supply of el. energy | 8.645.516 | 5.677.218 |
| Services and tourism | 20.089.000 | 14.160.502 |
| Agriculture and food industry | 6.022.829 | 2.439.537 |
| Retail customers | 64.189.702 | 47.880.851 |
| Domestic and foreign banks and other financial institutions | 1.495.801 | 2.211.901 |
| Public sector | 3.261.272 | 4.632.590 |
| Non-resident corporate customers | 96.073 | 91.946 |
| Agricultural producers | 261.011 | 224.723 |
| Other customers | 1.239.839 | 1.276.944 |
| Entrepreneurs | 1.922.704 | 1.235.435 |
| | **151.294.891** | **116.943.334** |

### e) Financial leasing receivables

RSD thousand

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| Minimum lease payments | 8.985.848 | 7.341.132 |
| Minus: Receivables for undue interest | (537.151) | (511.035) |
| **Financial leasing receivables** | **8.448.697** | **6.830.097** |
| Due remaining minimum lease payments | 13.218 | 14.878 |
| Other receivables based on the financial leasing business | 39.600 | 47.083 |
| | **8.501.515** | **6.892.058** |
| Minus deferred income from receivables from financial leasing fees | (74.876) | (63.557) |
| | **8.426.639** | **6.828.502** |
| Minus: impairment allowance | | |
| - financial lease receivables | (252.283) | (271.282) |
| - receivables for due interest | (12.833) | (14.857) |
| - other receivables from financial leasing business | (39.358) | (46.895) |
| | **(304.474)** | **(333.033)** |
| | **8.122.165** | **6.495.468** |

## 23. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

**RSD thousand**

| | Land and buildings | Equipment | Equipment taken under finance lease | Investment property | Equipment under construction | Total Tangible assets | Intangible assets under construction | Intangible assets |
|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | |
| **Balance as at 1 January 2017** | **743.709** | **829.049** | **122.295** | **243.633** | **-** | **1.938.686** | **-** | **1.224.882** |
| Additions | - | 9.647 | (3.878) | - | 527.446 | 533.215 | - | - |
| Transfers | 16.322 | 255.193 | 140.326 | - | (506.282) | (94.441) | - | 101.402 |
| Disposal and retirement | (7.385) | (77.883) | (4.570) | (243.633) | - | (333.471) | - | (9.225) |
| **Balance as at 31 December 2017** | **752.646** | **1.016.006** | **254.173** | **-** | **21.164** | **2.043.989** | **-** | **1.317.059** |
| Additions | - | 11.712 | (7.083) | - | 285.265 | 289.894 | 327.744 | 12.829 |
| Transfers | 34.947 | 113.213 | 70.571 | - | (297.655) | (78.924) | - | 78.931 |
| Disposal and retirement | (11.102) | (39.798) | - | - | - | (50.900) | - | (447) |
| **Balance as at 31 December 2018** | **776.491** | **1.101.132** | **317.661** | **-** | **8.774** | **2.204.058** | **327.744** | **1.408.372** |
| **ACCUMULATED DEPRECIATION** | | | | | | | | |
| Balance as at 1 January 2017 | **262.295** | **602.593** | **12.899** | **11.216** | **-** | **889.003** | **-** | **943.487** |
| Depreciation (Note 14) | 18.494 | 104.185 | 42.471 | 1.159 | - | 164.309 | - | 127.245 |
| Disposal and retirement | (2.201) | (70.803) | (4.561) | (12.375) | - | (89.940) | - | (9.225) |
| **Balance as at 31 December 2017** | **278.588** | **635.975** | **50.809** | **-** | **-** | **965.372** | **-** | **1.061.507** |
| Overwriting | - | **7.083** | **(7.083)** | - | - | - | - | - |
| Depreciation (Note 14) | 18.709 | 120.530 | 66.691 | - | - | 205.930 | - | 120.584 |
| Disposal and retirement | (3.855) | (36.080) | | - | - | (39.935) | - | (349) |
| **Balance as at 31 December 2018** | **293.443** | **727.508** | **110.417** | **-** | **-** | **1.131.368** | | **1.181.742** |
| **NET BOOK VALUE** | | | | | | | | |
| **– 31 December 2018** | **483.048** | **373.624** | **207.244** | **-** | **8.774** | **1.072.688** | **327.744** | **226.630** |
| **– 31 December 2017** | **474.058** | **380.031** | **203.364** | **-** | **21.164** | **1.078.617** | - | **255.553** |

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

The Group does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment on 31 December 2018 is mostly composed of computer and telecommunication equipment and office furniture. The net book value of intangible assets as of 31 December 2018 is mostly software and licenses. Based on the assessment of the Group's management, there are no indications that the value of fixed assets and intangible assets is impaired as at 31 December 2018.

## 24. FIXED ASSETS INTENDED FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

As disclosed in Note 2.18. in accordance with its accounting policies, the Bank measures assets, classified as assets intended for sale, at the lower of the following two amounts:

- at book value or
- fair value reduced for costs of sales

| | | **RSD thousand** |
|---|---|---|
| | **2018** | **2017** |
| Fixed assets intended for sale and assets from discounted operations | 12.288 | 12.288 |
| **Balance as at 31 December** | **12.288** | **12.288** |

As at 31 December 2018, the Group has registered following fixed assets for sale, which are located in the territory of the Republic of Serbia:

- Zemun, Cara Dušana 266 – business space of 374 m2

## 25. OTHER ASSETS

| | 2018 | RSD thousand 2017 |
|---|---|---|
| **In RSD** | | |
| *Financial assets:* | | |
| – Receivables for accrued fees and commissions | 20.725 | 16.212 |
| – Trade receivables | 2.045 | 2.045 |
| – Other receivables from standard operations | 30.547 | 28.946 |
| – Other receivables | 148.537 | 211.829 |
| *Non-financial assets:* | | |
| – Advances given | 8.687 | 2.928 |
| – Receivables from employees | 3.535 | 698 |
| – Receivables from prepaid taxes and contributions | 1.148 | 725 |
| – Inventories | 70.805 | 93.887 |
| – Other receivables | (3.347) | (425) |
| – Other investments | 27.006 | 27.006 |
| *Prepayments and accrued income:* | | |
| – Prepaid insurance premiums | 542.704 | 542.593 |
| – Coupon interest when buying bonds | 241.286 | - |
| – Other deferred assets | 126.593 | 166.210 |
| | **1.220.271** | **1.092.654** |
| **In foreign currency** | | |
| *Financial assets:* | | |
| – Receivables for accrued fees and commissions | 6 | - |
| – Trade receivables | 20.136 | 30.993 |
| – Other receivables from standard operations | 15 | 24 |
| – Other receivables | 47.756 | 49.202 |
| *Non-financial assets:* | | |
| – Advances given | 25.817 | 121.156 |
| – Receivables from employees | 13 | 22 |
| – Other receivables | 64.063 | 2.031 |
| *Prepayments and accrued income:* | | |
| – Coupon interest when buying bonds | 32.888 | - |
| – Other deferred assets | 4.807 | 34.552 |
| | **195.501** | **237.980** |
| **Gross other assets** | **1.415.772** | **1.330.634** |
| *Less*: Impairment allowance | (170.114) | (176.523) |
| **Balance as at 31 December** | **1.245.658** | **1.154.111** |

Other financial assets are valued at amortized cost.

## 25. OTHER ASSETS (continued)

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

| | 2018 | RSD thousand 2017 |
|---|---|---|
| Balance at beginning of the year | 107.871 | 253.582 |
| Effects of transition to the new standard | 15.265 | - |
| New impairment allowances | 58.772 | 68.211 |
| Reversal for impairment allowance | (36.716) | (28.428) |
| Direct write-offs | (32.921) | (69.703) |
| FV adjustments | - | (2.140) |
| Foreign exchange difference | (11.152) | (113.651) |
| **Balance of impairment allowances of financial assets at 31 December** | **101.119** | **107.871** |
| **Balance of impairment allowances of non-financial assets as at 31 December** | **68.995** | **68.652** |
| **Balance as at 31 December** | **170.114** | **176.523** |

## 26. DERIVATE LIABILITIES

| | 2018 | RSD thousand 2017 |
|---|---|---|
| **In RSD** | | |
| Liabilities from derivates intended for trading | 766 | 14.750 |
| | **766** | **14.750** |
| **In foreign currency** | | |
| Liabilities from derivates intended for trading | 94.752 | 29.708 |
| | **94.752** | **29.708** |
| **Balance as at 31 December** | **95.518** | **44.458** |

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

RSD thousand

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Short-term | Long-term | Total | Short-term | Long-term | Total |
| **In RSD** | | | | | | |
| *Deposits and borrowings* | | | | | | |
| Transaction deposits | 428.583 | - | **428.583** | 292.843 | - | **292.843** |
| Deposits placed for loan approved | 87 | 516 | **603** | - | 247 | **247** |
| Earmarked deposits | 22.602 | - | **22.602** | 86.554 | - | **86.554** |
| Other deposits | 3.661.470 | 520.000 | **4.181.470** | 4.361.319 | 345.000 | **4.706.319** |
| Loans receivables | - | 600.000 | **600.000** | - | - | **-** |
| ***Total*** | **4.112.742** | **1.120.516** | **5.233.258** | **4.740.716** | **345.247** | **5.085.963** |
| **In foreign currencies** | | | | | | |
| *Deposits and borrowings* | | | | | | |
| Transaction deposits | 630.522 | - | **630.522** | 375.863 | - | **375.863** |
| Deposits placed for loan approved | - | 189.110 | **189.110** | - | 189.556 | **189.556** |
| Earmarked deposits | 191.079 | 24.230 | **215.309** | 21.246 | 18.955 | **40.201** |
| Other deposits | 6.757.163 | 2.508.694 | **9.265.857** | 6.317.658 | 1.512.836 | **7.830.494** |
| Overnight deposits | 2.434.808 | - | **2.434.808** | 2.262.829 | - | **2.262.829** |
| Borrowings | 3.322.541 | 45.824.921 | **49.147.462** | 2.130.419 | 33.916.419 | **36.046.838** |
| Other financial liabilities | 37.061 | - | **37.061** | 27.963 | - | **27.963** |
| ***Total*** | **13.373.174** | **48.546.955** | **61.920.129** | **11.135.978** | **35.637.766** | **46.773.744** |
| **Balance as at 31 December** | **17.485.916** | **49.667.471** | **67.153.387** | **15.876.694** | **35.983.013** | **51.859.707** |

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## 27. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (Continued)

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

| | | RSD thousand |
|---|---|---|
| | **2018** | **2017** |
| Central bank | 1.091 | 1 |
| Domestic banks | 3.932.397 | 6.981.815 |
| Insurance companies | 3.010.514 | 2.647.290 |
| Pension funds | - | - |
| Finance lessors | 422.805 | 2.567.369 |
| Auxiliary activities within financial services and insurance | 4.953.979 | 3.207.703 |
| Trusts, investment and similar funds | - | - |
| Other crediting and financing service providers | 26.459 | 2.855 |
| Foreign banks | - | - |
| | 54.806.142 | 36.452.674 |
| **Balance as at 31 December** | **67.153.387** | **51.859.707** |

Foreign banks' deposits mostly relate to the deposit of Erste Group Bank AG in the amount of RSD 28.462.264 thousand and a deposit of European Investment Bank in the amount of RSD 12.966.414 thousand.

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## 28. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

RSD thousand

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Short-term | Long-term | Total | Short-term | Long-term | Total |
| **In RSD** | | | | | | |
| *Liabilities arising from deposits and loans* | | | | | | |
| Transactional deposits | 24.684.911 | - | **24.684.911** | 17.706.708 | - | **17.706.708** |
| Revocable deposits | 593.007 | 766.430 | **1.359.437** | 532.109 | 542.425 | **1.074.534** |
| Saving deposits: | 182.118 | 730.609 | **912.727** | 237.930 | 189.160 | **427.090** |
| Deposits based on given loans | 4.040.575 | 18.750 | **4.059.325** | 2.829.348 | 18.750 | **2.848.098** |
| Earmarked deposits | 10.201.291 | 5.220 | **10.206.511** | 6.926.343 | 7.359 | **6.933.702** |
| Other deposits | | | | | | |
| ***Total*** | **39.701.902** | **1.521.009** | **41.222.911** | **28.232.438** | **757.694** | **28.990.132** |
| | | | | | | |
| **In foreign currency** | | | | | | |
| *Liabilities arising from deposits and loans* | | | | | | |
| Transactional deposits | 44.155.303 | - | **44.155.303** | 34.154.483 | - | **34.154.483** |
| Revocable deposits | 7.966.244 | 11.400.354 | **19.366.598** | 8.190.424 | 11.953.885 | **20.144.309** |
| Saving deposits: | 130.160 | 3.736.187 | **3.866.347** | 103.768 | 2.058.284 | **2.162.052** |
| Deposits based on given loans | 748.927 | 282.420 | **1.031.347** | 3.259.784 | 314.590 | **3.574.374** |
| Earmarked deposits | 208.591 | 631.219 | **839.810** | 1.082.998 | 124.996 | **1.207.994** |
| Other deposits | - | 2.354.677 | **2.354.677** | - | 1.291.788 | **1.291.788** |
| Borrowings | 373.221 | - | **373.221** | 456.996 | - | **456.996** |
| Other financial liabilities | | | | | | |
| ***Total*** | **53.582.446** | **18.404.857** | **71.987.303** | **47.248.453** | **15.743.543** | **62.991.996** |
| | | | | | | |
| ***Balance as at 31 December*** | | | **113.210.214** | | | **91.982.128** |

## 28. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS (continued)

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

| | RSD in thousand 2018 | 2017 |
|---|---:|---:|
| Holding companies | 4 | - |
| Public companies | 3.706.090 | 2.057.397 |
| Corporate customers | 37.428.545 | 26.848.840 |
| Public sector | 4.224.630 | 2.691.673 |
| Retail customers | 53.657.942 | 45.729.756 |
| Non-residents | 2.318.467 | 2.467.769 |
| Entrepreneurs | 2.853.351 | 2.195.108 |
| Agricultural producers | 514.419 | 397.437 |
| Other customers | 8.506.766 | 9.594.148 |
| **Balance as at 31 December** | **113.210.214** | **91.982.128** |

## 29. SUBORDINATED LIABILITIES

| | RSD thousand 31.12.2018. | 31.12.2017. |
|---|---:|---:|
| **In foreign currencies** | | |
| Subordinated liabilities | 4.566.337 | 1.354.523 |
| | **4.566.337** | **1.354.523** |

The balance of subordinated borrowings as of 31 December 2018 and 31 December 2017 is presented in more detail in the table below, without deferred interest per subordinated liabilities:

RSD in thousand

| Creditor | Currency | Loan amount | Maturity | Interest rate | 31.12.2018. | 31.12.2017. |
|---|---|---:|---|---|---:|---:|
| Erste Group Bank AG | EUR | 15.000.000 | 27.12.2021. | Euribor+3,65% p.a. | 1.013.097 | 1.354.523 |
| Erste Group Bank AG | EUR | 30.000.000 | 10.09.2028. | Euribor+3,38% p.a. | 3.545.838 | - |
| **Total** | | **45.000.000** | | | **4.558.935** | **1.354.523** |

Subordinated liabilities relate to a subordinated long-term loan approved to the Bank by Erste GCIB Finance, Amsterdam on 27 December 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 Group may include subordinated liabilities in its supplementary capital (Note 35.9), 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 6 December 2011, and based on the Group's request of 7 October 2011.

On the basis of the Transfer and Transfer Agreement on 16 December 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.

The Group has signed on 20 August 2018 a new subordinated loan agreement with Erste Group Bank AG Vienna for the amount of EUR 30 million. Term of the loan is 10 years, the interest rate is at the level of the three-month EURIBOR, increased by 3,38% annually. In accordance with the contract, the principal is repaid on the maturity date in one amount.

**29. SUBORDINATED LIABILITIES (continued)**

The Group may include subordinated liabilities into supplementary capital after the National Bank of Serbia, on the basis of the submitted documentation and the Agreement, establishes that all conditions for giving approval for including subordinated liabilities in the supplementary capital of the Group are fulfilled. The National Bank of Serbia, the Banking Supervision Department, submitted such approval on 11 October 2018, and based on the Group's request as of 24 August 2018. "

## 30. PROVISIONS

RSD thousand

| | 2018 | 2017 |
|---|---|---|
| Provisions for losses per off-balance sheet items (a) | 240.457 | 326.073 |
| Provisions for long-term employee benefits (b): | | |
| – retirement benefits | 77.170 | 76.224 |
| – jubilee awards | 114.054 | 111.997 |
| Provisions for litigations (c) | 239.812 | 185.274 |
| Other long-term provisions | 5.701 | 67.041 |
| **Balance as at 31 December** | **677.194** | **766.609** |

**Changes in the provisions of off-balance sheet items**

(a) According to the Group’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 Group’s commitments.

Evidence based on which the Group performs the individual assessment of impairment are: payments effected on the Group’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 Group’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 Group 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 Group 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 Group has formed provisions for long-term employee benefits that include provisions for legal retirement on retirement and jubilee awards. Liabilities on this basis are recognized in the amount of the present value of future cash flows using the accrual method.

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

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## 30. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

| | | RSD thousand |
|---|---|---|
| | **2018** | **2017** |
| **Provisions for losses per off-balance sheet exposures** | | |
| Balance at the beginning of the year | 326.073 | 277.482 |
| Provisions for the year (Note 10) | 149.162 | 2.485.813 |
| Reversal of unused provisions (Note 10) | (241.881) | (2.430.790) |
| Other movements | 7.102 | (6.433) |
| | **240.457** | **326.072** |
| **Provisions for other long-term employee benefits** | | |
| Balance at the beginning of the year | 188.221 | 198.088 |
| Interest expenses and current service costs (Note 13) | 22.648 | 19.177 |
| Compensations payments during the year | (17.059) | (28.157) |
| Actuarial losses/(gains) on jubilee awards | 2.806 | 10.151 |
| Actuarial losses/(gains) on retirement benefits | (5.392) | (11.038) |
| | **191.224** | **188.221** |
| **Provisions for litigations** | | |
| Balance, beginning of year | 185.274 | 172.445 |
| Provisions for the year | 71.300 | 22.141 |
| Released during the year | (16.762) | (9.313) |
| Other changes | - | - |
| | **239.812** | **185.273** |
| **Other long-term provisions** | | |
| Balance at the beginning of the year | 67.043 | 42.700 |
| Used provisions - payments | (31.115) | (27.628) |
| Other changes | (30.227) | 51.971 |
| | **5.701** | **67.043** |
| **Balance as at 31 December** | **677.194** | **766.609** |

**30. PROVISIONS (continued)**

Data used by the actuary to calculate provisions for future liabilities based on severance pay for retirement:

- data on employees;
- total work experience as at 31 December 2018;
- year of birth and gender;
- the number of years up to the old age pension;
- mortality table for the Republic of Serbia 2010-2012;
- interest rate of 4,2%;
- average gross salary in the Republic of Serbia in the period January - May 2017 and
- the assumed salary growth of 2,7% per annum over the entire period for which funds are reserved.

| | RSD thousand |
|---|---|
| **Present value of employee benefits as at 31 December 2017** | **188.221** |
| *Cost of services* | |
| a. Current service cost | 15.575 |
| b. Past service cost | - |
| c. Interest costs | 7.073 |
| d. Payments | (17.059) |
| *Actuarial gains (-) / losses (+) for jubilee awards arising from:* | |
| a. Change in demographic assumptions | 781 |
| b. Change in financial assumptions | 2.025 |
| c. Change in experiential assumptions | - |
| *Actuarial gains (-) / losses (+) for severance payments arising from:* | |
| a. Change in demographic assumptions | (6.954) |
| b. Change in financial assumptions | 1.562 |
| c. Change in experiential assumptions | - |
| **Present value of employee benefits as at 31 December 2018** | **191.224** |

**30. PROVISIONS (continued)**

Changes in provisions for losses on off-balance sheet assets accounts during the year are presented in the following table:

**In RSD '000**

| Changes in provisions for losses on off-balance sheet assets | Balance at the beginning of the period | Increase due to recognition and acquisition | Decrease due to derecognition | Increase due to credit risk change | Decrease due to credit risk change | Change due to foreign exchange differences | Other changes | Balance at period end |
|---|---|---|---|---|---|---|---|---|
| Stage of impairment 1 | 235.603 | 89.147 | 68.357 | 38.887 | 140.546 | (132) | 1.818 | 156.420 |
| Stage of impairment 2 | 32.499 | 4.178 | 15.418 | 6.509 | 13.584 | (15) | (3.937) | 10.232 |
| Stage of impairment 3 | 65.222 | 6.959 | 694 | 3.482 | 3.282 | (3) | 2.121 | 73.805 |
| **Total** | **333.324** | **100.284** | **84.469** | **48.878** | **157.412** | **(150)** | **2** | **240.457** |

The movement between stages for off-balance sheet assets is presented in the following table:

| | Gross book value | | | | | |
|---|---|---|---|---|---|---|
| | Transfer between stages 1 and 2 | | Transfer between stages 2 and 3 | | Transfer between stage 1 and 3 | |
| | From stage 1 to stage 2 | From stage 2 to stage 1 | From stage 2 to stage 3 | From stage 3 to stage 2 | From stage 1 to stage 3 | From stage 3 to stage 1 |
| Given guarantees and other assurances | 153.583 | 405.577 | - | - | - | 591 |
| Unused undertaken irrevocable liabilities | 8.360 | 630.472 | 1.212 | 123 | 1.887 | 160 |
| **Total** | **161.943** | **1.036.049** | **1.212** | **123** | **1.887** | **751** |

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## 31. OTHER LIABILITIES

| | 2018 | RSD thousand 2017 |
|---|---|---|
| **In RSD** | | |
| *Non-financial liabilities:* | | |
| Trade payables | 12.096 | 16.783 |
| Advances received | 31.503 | 33.460 |
| Liabilities for net salaries and benefits | 11 | - |
| Liabilities for taxes, contributions and other duties payable | 86.515 | 76.186 |
| Accrued expenses and deferred revenue: | | |
| – accrued liabilities for unused annual leaves | 30.245 | 21.078 |
| –accrued liabilities for MBU processing | 125 | 15.936 |
| –accrued liabilities for IT services | 12.464 | 13.753 |
| –accruals for expenses | 58.912 | 117.044 |
| – other accruals | 211.599 | 193.155 |
| Liabilities to retailers for POS terminals | 22.096 | 51.748 |
| Liabilities for closing of accounts (in RSD) | 21.964 | 21.685 |
| Obligations from forcibly sold shares synergy - natural persons | 25.899 | 24.414 |
| Other liabilities | 155.853 | 173.177 |
| | **669.282** | **758.419** |
| **In foreign currencies** | | |
| *Financial assets:* | | |
| Liabilities for unpaid assets on lease | 169.995 | 163.819 |
| *Non-financial assets:* | | |
| Compensation and commission fees | 60 | 60 |
| Suppliers | - | 5.734 |
| Advances received | 11.441 | 10.634 |
| *Accruals:* | | |
| – other accruals | 115.493 | 36.485 |
| Covers by nostro remittances | 11.310 | 27.937 |
| Other liabilities | 107.993 | 27.417 |
| | **416.292** | **272.086** |
| **Balance as at 31 December** | **1.085.574** | **1.030.505** |

Other financial liabilities are valued at amortized cost.

## 32. EQUITY

### (a) Structure of the Group’s' Equity

The total equity structure of the **Group** is presented as follows:

| | 2018 | RSD thousand 2017 |
|---|---|---|
| Share capital - ordinary shares | 10.040.000 | 10.040.000 |
| Share premium | 124.475 | 124.475 |
| Special Reserves for Estimated Losses | 10.036.645 | 7.679.824 |
| Revaluation reserves | 513.700 | 418.346 |
| Retained earnings | 3.057.163 | 2.732.925 |
| Owners without rights of control | 77.914 | 64.856 |
| **Balance as at 31 December** | **23.849.897** | **21.060.426** |

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## 32. CAPITAL (Continued)

### */i/ Share Capital*

As of 31 December 2018 the Group's subscribed and paid in capital comprised 1.004.000 ordinary shares with the par value of RSD 10.000 per share (31 December 2017: 1.004.000 ordinary shares with the par value of RSD 10.000 per share). During 2018 and 2017 there were no changes in the share capital.

The major shareholder of the Bank is Erste Group, Vienna, with a shareholding of 74% at 31 December 2018. The shareholder structure of the Bank as of 31 December 2018 is presented below:

| Shareholder | Number of shares | In % |
|---|---|---|
| EGB CEPS HOLDING GMBH | 742.960 | 74,00 |
| Steiermärkische Bank und Sparkassen AG, Graz | 261.040 | 26,00 |
| **Total** | **1.004.000** | **100,00** |

### */ii/ Share Premium*

Share premium amounting to RSD 124.475 thousand as at 31 December 2018 and 31 December 2017 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 2018 amount to RSD 10.036.645 thousand. As at 31 December 2017, reserves from profit amounted to RSD 7.679.824 thousand. Pursuant to the Decision of the Shareholders Assembly of the Bank of 28 September 2018, from the realized profit for 2017, the Bank made a loss coverage based on the effect of the IFRS 9 in the amount of RSD 275.419 thousand and has allocated the remaining profit to the other reserves in the amount of RSD 2.356.820 thousand.

### */iv/ Revaluation reserves*

Revaluation reserves amounting to RSD 513.700 thousand as of 31 December 2018 (31 December 2017: RSD 418.346 thousand), were formed as a result of the market value adjustment of the securities available for sale, adjusted for the effects of deferred taxes arising from revaluation of these securities and the adjustment of liabilities based on the actuary calculation in accordance with IAS 19.

## 32. EQUITY (continued)

### (b) Performance indicators of the Group - compliance with legal indicators.

| Performance indicators | **Prescribed** | **31.12.2018.** | **31.12.2017.** |
|---|---|---|---|
| 1. Equity | Minimum EUR 10 million | | |
| 2. Capital adequacy | Minimum 8% | EUR 211.699.569 | EUR 168.938.503 |
| 3. Basic Capital adequacy | Minimum 6% | 17,11 | 17,30 |
| 4. Basic Share capital adequacy | Minimum 4,5% | 14,46 | 16,81 |
| 5. Investments of the Bank | Maximum 60% | 14,46 | 16,81 |
| 6. Exposure to related parties | no limit | 4,47 | 5,62 |
| 7. Large and largest possible loans in relation to capital | Maximum 400% | 8,54 | 12,97 |
| 8. Liquidity: | | 120,25 | 97,33 |
| – liquidity indicator | Minimum 0,8 | 1,36 | 1,61 |
| – narrower liquidity indicator | Minimum 0,5 | 1,28 | 1,52 |
| 9. Indicator of liquid assets coverage | Minimum 100% | 175,08 | 156,85 |
| 10. Foreign exchange risk indicator | Maximum 20% | 2,55 | 5,76 |
| 11. Exposure of the Bank to a group of related parties | Maximum 25% | 16,46 | 21,25 |
| 12. Exposure of the Bank to a person related to a bank | no limit | 5,49 | 9,41 |
| 13. Bank's investments in non-financial entities | Maximum 10% | 0,11 | 0,13 |

## 33. OFF-BALANCE SHEET ITEMS

The Group records mortgages, securities from custody operations and unwinding interest within the framework of other off-balance sheet items.

| | 2018 | RSD thousand<br>2017 |
|---|---|---|
| Managed funds (a) | 617.999 | 640.935 |
| Guarantees and other irrevocable commitments (b) | 52.151.249 | 37.230.852 |
| Other off-balance sheet items | 229.166.521 | 215.361.570 |
| **Balance as at 31 December** | **281.935.769** | **253.233.357** |
| Bad debt transferred to off-balance sheet items | (1.855.746) | (1.900.406) |
| **Balance as at 31 December** | **280.080.023** | **251.332.951** |

### (a) Managed funds

| | 2018 | RSD thousand<br>2017 |
|---|---|---|
| Investments on behalf of third parties | | |
| In RSD | | |
| – short-term | 15.635 | 14.006 |
| – long-term | 602.364 | 626.929 |
| **Balance as at 31 December** | **617.999** | **640.935** |

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 8.183 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 604.658 and long-term loans to agricultural producers in the amount of RSD 7.573 thousand.

### (b) Guarantees and Other Irrevocable Commitments

| | 2018 | RSD thousand<br>2017 |
|---|---|---|
| **In RSD** | | |
| Payment guarantees | 1.568.688 | 1.046.722 |
| Performance guarantees | 5.821.541 | 4.780.880 |
| Irrevocable commitments for undrawn loan facilities | 5.081.218 | 5.567.655 |
| Other off-balance items | 505.121 | 653.801 |
| | **12.976.568** | **12.049.058** |
| **In foreign currencies** | | |
| Payment guarantees | 2.751.967 | 1.511.097 |
| Performance guarantees | 4.557.711 | 4.869.481 |
| Irrevocable commitments for undrawn loan facilities | 30.159.391 | 17.010.434 |
| Letters of credit | 404.196 | 187.855 |
| Other off-balance items | 1.301.416 | 1.602.927 |
| | **39.174.681** | **25.181.794** |
| **Balance as at 31 December** | **52.151.249** | **37.230.852** |

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

### 33. OFF-BALANCE SHEET ITEMS (continued)

Irrevocable commitments are usually indexed to 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 Group monitors maturity periods of credit commitments and undrawn loan facilities because longer term commitments bear a greater degree of credit risk than short-term commitments.

As at 31 December 2018, the Group's provisions for guarantees and other irrevocable commitments amounted to RSD 240.457 thousand (31 December 2017: RSD 326.073 thousand).

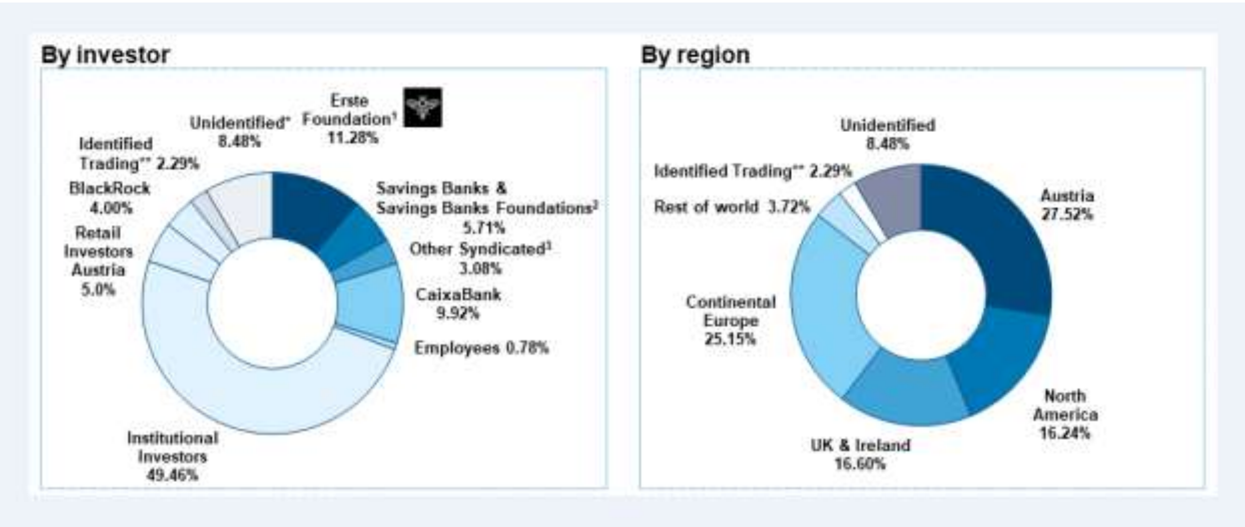
### 34. RELATED PARTY DISCLOSURES

In its regular business the Group has transactions with its shareholders and other related parties.

Other parties are considered as the related parties if they are under common control, or if one party controls other, or if it can make the significant impact on the other party while making financial and business decisions.

Shareholders of the Bank are Erste Group AG Wien and Steirmärkische Bank and Sparkassen AG, Graz.

Shareholders structure of Erste Group is presented below:



**34. RELATED PARTY DISCLOSURES (continued)**

Balances of receivables and payables as of 31 December 2018 and 31 December 2017 as well as income and expenses arising from transactions with entities within Erste Group are provided in tables below:

**RSD thousand**

| | 31.12.2018. | | 31.12.2017. | |
|---|---|---|---|---|
| | **Shareholders** | **Other members of Erste Group** | **Shareholders** | **Other members of Erste Group** |
| **Receivables** | | | | |
| Derivative receivables | 11.394 | - | 12.842 | - |
| Loans and receivables from banks and other financial institutions | 472.578 | 2.124 | 1.158.880 | 12.684 |
| Loans and receivables from customers | - | 43 | - | 153 |
| Other assets | 65.509 | 28.085 | 168.518 | 30.833 |
| | **549.481** | **30.253** | **1.340.240** | **43.832** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss, held for trading | 84.446 | - | 40.956 | - |
| Deposits and liabilities due to banks and other financial institutions | 28.462.572 | 65.665 | 16.359.513 | 134.282 |
| Deposits and liabilities due to customers | - | 123.558 | - | 51.913 |
| Subordinated liabilities | 4.566.337 | - | 1.354.523 | - |
| Provisions | 108 | 8 | 191 | 149 |
| Other liabilities | 64.171 | 5.670 | 13.923 | 199.263 |
| | **33.177.634** | **194.901** | **17.769.105** | **394.606** |
| **Off-balance sheet items** | | | | |
| Guarantees and other warranties | 972.578 | 187.038 | 1.038.214 | 227.487 |
| Irrevocable commitments | - | 1.550 | - | 2.904 |
| Other off-balance sheet items | 14.689.057 | 236.389 | 10.323.119 | 653.012 |
| | **15.661.635** | **424.977** | **11.361.333** | **883.403** |

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**34. RELATED PARTY DISCLOSURES (continued)**

**RSD thousand**

| | 31.12.2018. | | 31.12.2017. | |
|---|---|---|---|---|
| | **Shareholders** | **Other members of Erste Group** | **Shareholders** | **Other members of Erste Group** |
| Interest income | 12.446 | 28 | 21.421 | 2.490 |
| Interest expense | (431.220) | (145) | (288.509) | (5.080) |
| Fees and commission income | 42.839 | 3.378 | 44.456 | 15.446 |
| Fees and commission expense | (192.700) | - | (201.716) | - |
| Net gains on changes in FV of financial instruments | - | - | 27.645 | - |
| Net loss on changes in FV of financial instruments | (61.205) | - | - | - |
| Net gains on foreign exchange difference and currency clause effects | 63.288 | 1.847 | - | 1.737 |
| Net loss on foreign exchange difference and currency clause effects | - | - | (15.488) | - |
| Net gains on impairment of financial assets not valued at FV through profit and loss | 151 | 82 | 359 | - |
| Net loss on impairment of financial assets not valued at FV through profit and loss | (81) | - | - | (9.882) |
| Other operating income | 1 | 12.969 | 5.932 | 32.479 |
| Other income | 2.310 | 10.012 | - | 9.735 |
| Other expenses | (178.609) | (679.486) | (157.101) | (640.463) |

(a) As at 31 December 2018 and 31 December 2017 loans due from related parties were not impaired.

Long-term loans with related parties have maturity up to 5 years and they were taken at the rate of 6MEURIBOR + 1,86% i.e. LIBOR + 1,8%, while the subordinated loan was taken at the 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 affiliated entities range from 0,98 to 1,16%.

Other transactions on the money market (swap transactions, forward transactions, sales of cash), as well as those transactions for which the fee is charged or paid, are also performed at market conditions and prices „out of reach of the hand".

The interest rate on deposits and other liabilities towards banks and customers ranges from 0,15% to 9,2%.

Through cross-border loans, the Group provides the opportunity for its clients to borrow directly abroad, while allowing clients to perform all activities in the process of approval and administration in the Bank. This type of service provides the clients with the possibility of borrowing under more favorable conditions, and to the bank the realization of income from fees for these services. In cross-border loans, the Group is solely an agent and is not exposed to credit risk.

## 34. RELATED PARTY DISCLOSURES (Continued)

In its regular course of operations, the Group 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:

**RSD thousand**

| | Balance as at 31 December 2018 | Income/(Expenses) 31.12.2018. | Balance as at 31 December 2017 | Income/(Expenses) 31.12.2018. |
|---|---|---|---|---|
| Current account overdrafts, credit cards, cash and consumer loans | 1.473 | 186 | 2.535 | 165 |
| Housing loans | 63.303 | 3.538 | 70.159 | 3.476 |
| Accrued fees | (77) | - | (83) | - |
| Other placements and receivables | 321 | 42 | 562 | 23 |
| Total impairment allowances | (21) | 132 | (153) | 389 |
| Deposits | 39.005 | (236) | 57.844 | (409) |
| Other liabilities | 286 | (715) | 701 | (3.028) |
| Unused credit limit | 700 | - | 857 | - |

Salaries and other benefits of the Executive Board's members and the Management Board's members (stated in gross amounts), during 2018 and 2017, are presented in the table below:

**RSD thousand**

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| Salaries and benefits of the Management Board members | 5.168 | 16.776 |
| Salaries and benefits of the Executive Board members | 137.053 | 113.788 |
| Accrued income of the Executive Board members | 92.302 | 67.041 |
| Salaries and benefits of the Management Board members | - | - |
| **Total** | **234.523** | **197.605** |

***Transfer prices***

In line with the new provisions of the Law on Profit Tax in 2013, the Rulebook on Transfer Pricing and Methods, which are applied on the principle of "out of reach of the hand", in determining the prices of transactions between affiliated parties, entered into force. In accordance with this Law and the Ordinance, banks are also obliged together with the tax balance to submit a study on transfer prices.

## 35. RISK MANAGEMENT

### 35.1. Introduction

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

The Group'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 Group is exposed to in its business operations, as well as an adequate response in order to minimize potential adverse effects to the Group's capital and financial performance.

The Group has adopted policies and procedures that provide control and application of all internal acts of the Group in relation to risk management, as well as regular reporting to the Group in relation to risk management. Risk management processes are vital to the continuous profitable business operations of the Group and each individual within the Group is, within his/her remit, accountable for risk exposure. Such risk management system allows timely and full reporting to the governing bodies on all risks that occur or may occur and enables adequate and prompt response to such risks.

An independent risk management process does not cover business risks which comprise changes in the environment, technology and industry. The Group monitor these risks through the 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 Group has established separate independent bodies for managing and monitoring risks.

The key roles in risk management belong to the following units:

**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 Group.

**Assets and Liability Management Committee**

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

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

## 35. RISK MANAGEMENT (continued)

### 35.1. Introduction (continued)

**The Committee for the management of non-financial risks**

The aim of the Committee for the management of non-financial risks is to consider, propose decisions and validate issues in the area of operational risk management of the Group, with the application of the Decision on the basis of expected profit of exposure to risk and the implementation of corrective measures and actions to mitigate risks to manage non-financial risks (operational risk, reputational risk, compliance risk, legal risk, information security) in a proactive manner.

**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 Group. In addition, it is primarily responsible for funding and liquidity of the Group. Asset and Liability Management Unit prepares reports related to assets and liabilities management for the purposes of the Groups 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 Group's operations take place in accordance with the standards providing the function of an independent, objective assurance and advisory activities based on best practices. Through systematic and disciplined approach, internal audit helps the Group accomplish its objectives by evaluating and improving the effectiveness of risk management, control and managerial processes.

Risk management processes throughout the Group are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with such procedures. Internal audit discusses the results of all assessments with the Group and S-Leasing management and reports its findings and recommendations to the Audit Committee and the Management Board.

**Risk Management and Reporting System**

In accordance with the Law on Banks in the Group was established internal organisation which defines the organizational unit within its authority and responsibility has the task of risk management. The objective of risk management system is to identify and quantify the risks to which the Group is exposed in the course of its business activities.

The functions of monitoring and risk management are the responsibility of the Risk Management Division as a separate organizational unit within the Group. Risk management policies, risk management strategies as well as strategies for managing capital are linked to the Group 's strategy, and include defining the types of risks, the management of these risks and the level of risk that the Group is willing to accept in order to achieve their business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia (NBS).

## 35. RISK MANAGEMENT (continued)

### 35.1. Introduction (continued)

**Risk Management and Reporting System (continued)**

The responsibilities of the Risk Management Division include the following:

- Identification and measurement or assessment of Group's exposure to certain types of risks;
- Risk monitoring, including its monitoring and control, analysis and reports on the amount of individual risks, their causes and consequences;
- Measurement and evaluation as well as management of the Group's risk profile and capital adequacy;
- Tracking of parameters that influence the position of the Group's exposure to risks, primarily including management and optimization of asset quality and the cost of risk;
- Development and application of quantitative risk management models as elements in the process of advanced business decision making and pricing risk;
- Strategies development and limit proposals for the Group's exposure to the individual types of risks and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Group's financial position;
- Risk assessment of new products introduction and outsourcing activities;
- Development of methodologies, procedures and policies for risk management in accordance with relevant legislation, standards of Erste Group, good business practice and the special needs of the Group;
- Development and implementation of various technical platforms and tools.

The risk management function, set up in the form of separate organizational units, functionally and organisationally separate from the risk-taking activities of the Group, is responsible for the risk management system at the Group. Bearing in mind the diversity of areas covered, in order to increase the performance of their roles, the risk management function is divided between the departments managing the strategic risks and Credit Risk Management Division, which consists of the following organizational units:

The Strategic Risk Management, Portfolio and Capital Management Division consists of the following organizational units:

- Directorate for Integrated Risk and Capital Management;
- Directorate for Model Development and Risk Management;
- Department for Market Risk and Liquidity Risk Management;
- Operational risk management and other non-financial risks management;
- Collateral Management Department.

The Sector for Credit Risk Management consists of the following organizational units:

- Department of Corporate risk management;
- Department of Retail risk management;
- Restructuring and workout/Collections Department.

The Business Compliance and Security Management Service consists of the following organizational units:

- Central Compliance Department;
- Department of Money Laundering Control and Prevention;
- Financial Crime Management Department;
- Security risk management department.

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

The Group and its operations are particularly exposed to: credit risk, concentration risk, market risk, liquidity risk, operational risk. The obtained information is presented and explained to the Board of Directors, Executive Committee, Asset and Liability Committee and the heads of all business units. Reports are sent to the authorities on a daily, weekly, monthly and quarterly basis, and in accordance with their requirements.

Comprehensive report on risks are quarterly presents to the Board of Directors that includes all relevant information needed to estimate the risks the Group is exposed to.

## 35. RISK MANAGEMENT (continued)

### 35.2. Credit Risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Group, whether fully or partially that will generate the loss for the Group.

The Group's credit risk is caused by the debtor's credit capacity, good credit history, as well as quality of collateral, and is being identified, estimated and monitored in accordance with the internal by-laws for credit risk management, as well as in accordance with decisions that regulate the classification of the balance sheet assets and off-balance sheet items and capital adequacy.

By its business policy, the Group requires and assesses the maximum credit risk protection, as most important risk in banking.

The Group controls and manages credit risk by establishing rigorous process for determining minimal credit capacity of the debtor in the process of credit approval, as well as by regular monitoring during credit contract life, by defining the different level of decision during loan approval (which reflects knowledge and experience) and by establishing limits, by which the level of acceptable risk is determined on the individual client basis, geographical basis and industries, and risk monitoring accordingly.

By its internal by-laws, policies and procedures, the Group has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

In accordance with the Group's Risk management policy, Credit Policy and Procedures for managing the credit risk, the process of credit risk management for individual placements and risks at the portfolio level, i.e., the procedures of identification, measurement and monitoring (control) of placements, especially those with increased risk levels, has been defined.

The process of monitoring the quality of loan enables the Group to assess the potential losses as a result of which is exposed to risk and to take corrective measures.

Approval of loan products is based on the credit quality of the customer, the type of credit product, collateral, additional system requirements and other factors to minimize credit risk.

Assessment of risk of default by the counterparty of the Group is based on the likelihood of the client entering the status of default (PD). For each credit risk exposure, the credit decision is determined by the Group's internal rating, which is a unique measure of the risk of occurrence of the status of the counterparties. The internal rating of each client is updated on a regular basis, at least once a year. At the quantitative level, the internal ratings affect the cost of the required risk, and not the formation of provisions for credit risks. Internal ratings take into account all the available information needed for risk assessment of the client's entry in the status of default (default-a). For clients from the corporate segment, internal ratings take into account the financial strength of the client (profitability ratios, the adequacy of the maturity structure of certain elements of assets and liabilities, the adequacy of cash flows, indebtedness, credit-exposure to foreign exchange risk, the industry in which the borrower operates, the position of the debtor market, the specific characteristics of the debtor and other relevant indicators). For the retail segment and micro clients, internal ratings are based mainly on behavioral and application scoring, but also used demographic and financial information. It is used to restrict the rating depending on the membership in the group of economically related parties and the main economic activity of the country.

**35. RISK MANAGEMENT (continued)**

**35.2. Credit risk (continued)**

The Group complies with all standards of Erste Group AG from the perspective of the internal rating model development and maintenance process. All new models and modifications of existing models within the Group (rating models and risk parameters) and methodological standards are reviewed by the Commission's group, the so-called. Holding Model Committee (HMC), which ensures the integrity throughout the Group as well as the consistency of the model and methodology. Models are also approved by local management. The internal rating system complies with Erste Group AG's system, which distinguishes between "performing" and "non-performing" clients. For the "performing" clients (clients that are not in the status of default) The Group uses a scale score of 8 (A1/A2/B1/B2/C1/C2/D1/D2) for customers from the retail segments, or a 13 rating scale (1/2/3/4a/4b/4c/5a/5b/5c/6a/6b/7/8) for all other categories. For customers in the status of default The Group uses a scale score of 5 (R1-R5).

In order to increase the comparability of the quality of the assets of Erste Group, a new model for the assessment of the risk exposure category was developed and implemented in 2018. Based on the calibration of the internal probabilities of the default status of liabilities that are used for regulatory purposes (calculation of the provisions) on the rates of default status published by the agency's rating, an external rating is approximated for classification into a risk category purpose for each client.

Compared to the method used until 2017 based on internal ratings, the most visible is migration from the low risk category into the category of special supervision (from 8% of the portfolio to 18%, i.e. increase of this category by around RSD 15 billion), while the less significant migration from the category below the standard. Category of problematic receivables is not covered by this change. Considering that the newly developed model was implemented in 2018, the comparison between years is not relevant.

For reporting purposes, internal ratings are grouped into the following 4 categories of risk:

**Low risk** – clients with established good and longer cooperation with the Group, as well as many internationally recognized customers. Strong financial position with no anticipated financial difficulties in the future. Clients from the retail segment who have a long history of cooperation with the Group or clients who use a wide range of products. Clients who do not have delays in the payment of dues currently or in the past 12 months. At the same time, new contracts are generally signed with customers from this category. This category includes S&P ratings from AAA to BB

**Management attention** - clients with barely satisfactory or unsatisfactory financial situation. Maintenance of credit positions very uncertain in the medium term. Negative qualitative criteria are present. Clients from the retail segment with limited savings or likely problems in paying that trigger reminders for early payment. This category includes S&P rating B.

**Sub-standard** – Clients sensitive to negative financial and economic influences with S&P rating worse than CCC with no outstanding debit balance.

**Non-performing** – clients who recorded one or more criteria for the activation of the default status, in accordance with the definition laid down in the precise internal regulations of the Group and Erste Group AG: uncertain payments, late payments with a materially significant exposure for more than 90 days, a restructuring that has caused a loss for the Group, realization of credit loss or the initiation of bankruptcy proceedings. In order to determine the default status, The Group applies a client level approach, including retail clients; if the client is in the default status for one product, then all other products from the client are classified as problematic claims.

**Monitoring and control of credit risk**

Monitoring credit risk

With the aim of timely credit risk management a regular analysis of the risk of the client is performed, which includes regular status ratings, serviceability of obligations towards the Group, reviewing collaterals and compliance with contractual terms.

The Group aims to promptly identify any deterioration in the quality of the loan portfolio, which may result in material losses for the Group, therefore, the Group, through the process of regular re-approval, analyses the overall status of the debtor. The importance of regular re-approval of credit exposure is in the regular client monitoring and portfolio quality, and represents an additional measure to optimize credit risk exposure of the Group.

## 35. RISK MANAGEMENT (continued)

### 35.2. Credit risk (continued)

**Monitoring and control of credit risk (continued)**

The Group conducts evaluation of credit quality based on customer information, also taking into account all the client information and previous credit history between the group and the client.

Early Warning Signals

Systems and processes are used to detect early warning indications of negative developments, in order to provide proactive measures to reduce the risk. The Group applies methods of early detection of increased credit risk in order to increase successful collection even in case of deterioration of the credit portfolio quality, which is revealed by monitoring all relevant information and predicting changes in variables in the future which primarily includes the client's behavior up to that point in settling obligations and monitoring of market information.

EWS control function within the Group is organized within a separate organizational unit within the Directorate of credit risk management of legal entities (Department of EWS and monitoring).

**Default status**

Definition of the default status within the Group follows the regulatory requirements of the Group by translating them into five groups of events of default status:

- Default event E1 - Small chance of settling the obligations entirely due to the decrease of credit quality of borrowers
- Default event E2 - A delay longer than 90 days after a materially significant amount of debt
- Default event E3 - Modifications to the originally agreed terms of repayment due to the assessment of the worsening economic situation of the client
- Default event E4 - Credit loss
- Default event E5 - Bankruptcy

The Group has established a systematic process to ensure identification and recognition of status of default on client level. This means that in case a default status of any credit risk exposure of individual investments of a client, the total balance sheet or off-balance sheet exposure that the Group has for the client, including products that are not related to lending, are classified in the default status. The foregoing is applicable to all clients from the retail banking segment, as well as clients from other corporate segments.

In the case of undertaken loan commitments that are part of the Group's off-balance sheet assets, the exposure in the status of default is presented in the nominal amount of the liability, which, in case of the withdrawal of funds, or the activation, leads to risk exposure based on the default status without the realization of collaterals.

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Default status (continued)**

In the case of given financial guarantees, exposure in the status of default represents the total nominal amount based on which there is a risk that may arise in the event of the occurrence of default status of partial or total guaranteed exposure.

Default events can be activated either at the level of exposure of individual investments or on the client level, but the general rule that applies to all cases, requires that the client is granted the status of default for all individual exposures, and be given an internal rating of "R", regardless whether the default event triggered at individual exposures level or at the client level.

All clients of the Group are located in the status of default and therefore they are given the appropriate internal rating (R1 - R5) if there has been a realization of at least one of the default events E1 - E5.

If the Group estimates that criteria, which led to default status, are no longer applicable and the client is able to continue to repay the debt in accordance with the defined terms of the contract, the Group will change the rating of the client due to the fact that the client is no longer in the status of default.

Minimum general requirements that must be met before leaving the status of default and the "R" rating are the following:

- none of the default events E1 - E5 are valid with the client and additional losses in not expected on its individual credit exposures and
- the monitoring period is successfully over.

Each event has a default precisely defined minimum duration and termination of the default status is acceptable only after the successful completion of the monitoring period which automatically follows the expiry / termination of default events E1 - E5 in clients who have any type of credit obligations and which lasts 3 months thereafter. Specifically, in order to successfully complete the monitoring period, during this time, the client is not allowed to start or have any criteria that may initiate by one of the predefined default events E1 - E5.

**Write off of receivables**

The Group, in accordance with the Regulations on the write-off of receivables and the transfer of receivables from the balance sheet to the off-balance sheet, performs write-offs of bad debts after they have exhausted all the possibilities for recovery. In addition, write-offs can be taken into consideration in a situation where further court proceedings are not economically viable due to higher costs compared to the collection amount, where further action of any kind is not effective. Write-off of receivables is performed only for doubtful loans that are impaired. For claims under litigation or bankruptcy which are fully impaired (for which a correction of 100% has been performed), and for which it is assessed that the litigation or bankruptcy will take too long and therefore will be a burden to the Group's balance sheet records, a decision is made on the transfer of receivables from the balance sheet to the off balance sheet but the debt is not forgiven, more precisely the Group does not waive contractual and legal rights for the claim.

In addition, the Group 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 dated 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 favor of impairment of the value of 100% of its gross carrying amount.

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## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

Maximum exposure to credit risk in balance sheet and off-balance sheet items.
Overview of the maximum exposure to credit risk is shown in both gross and net amounts, without taking into account collaterals and other items that the Group does not consider as exposed to credit risk in accordance with the positions of the balance sheet as at 31 December 2018 is presented in the table below:

RSD thousand

| | Assets at based on which the Group is exposed to credit risk | | | | |
|---|---|---|---|---|---|
| | **Gross amount** | **Accumulated allowance for impairment / provisions** | **Net amount** | **The assets based on which the Group is not exposed to credit risk** | **Value from the balance sheet** |
| Cash and assets with the central bank | 16.671.146 | - | **16.671.146** | 7.970.111 | **24.641.257** |
| Financial assets at fair value through the profit and loss account | 181.204 | - | **181.204** | - | **181.204** |
| Securities | 35.167.790 | 13.896 | **35.153.894** | - | **35.153.894** |
| Loans and receivables from banks and other financial institutions | 1.495.801 | 2.929 | **1.492.872** | - | **1.492.872** |
| Loans and receivables from customers | 149.799.090 | 3.452.603 | **146.346.487** | - | **146.346.487** |
| Investments in associates and joint ventures | - | - | **-** | 118 | **118** |
| Intangible assets | - | - | **-** | - | **-** |
| Property, plant and equipment | - | - | **-** | 554.374 | **554.374** |
| Investment property | - | - | **-** | 1.072.688 | **1.072.688** |
| Current tax assets | - | - | **-** | 173.326 | **173.326** |
| Deferred tax assets | - | - | **-** | 20.553 | **20.553** |
| Fixed assets held for sale and assets from discontinued operations | - | - | **-** | 12.288 | **12.288** |
| Other assets | 902.898 | 83.132 | **819.766** | 425.892 | **1.245.658** |
| **On-Balance exposure** | **204.217.929** | **3.552.560** | **200.665.369** | **10.229.350** | **210.894.719** |
| Guarantees and warranties | 15.104.103 | 125.850 | **14.978.253** | | **14.978.253** |
| Assumed future liabilities | 37.047.146 | 114.563 | **36.932.583** | | **36.932.583** |
| Other off-balance sheet exposure | - | - | **-** | 229.784.520 | **229.784.520** |
| **Off-Balance exposure** | **52.151.249** | **240.413** | **51.910.836** | **229.784.520** | **281.695.356** |
| **Total exposure** | **256.369.178** | **3.792.973** | **252.576.205** | **240.013.870** | **492.590.075** |

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

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## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Overview of securities:**

**RSD thousand**
**Securities**

| | **Gross value** | | | **Of which: impaired** | | | **Accumulated value adjustments** | | | **Of which: impairment losses on impaired receivables** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **AC** | **FVOCI** | **FVTPL** | **AC** | **FVOCI** | **FVTPL** | **AC** | **FVOCI** | **FVTPL** | **AC** | **FVOCI** | **FVTPL** |
| **Derivative receivables** | - | - | **181.204** | - | - | - | - | - | - | - | - | - |
| Of which: Other | - | - | 181.204 | - | - | | - | - | - | - | - | - |
| **Financial assets available for sale** | **10.828.561** | **14.280.751** | **10.058.479** | - | - | - | **13.897** | 17.699 | - | - | - | - |
| Of which: Government bonds of the Republic of Serbia | 10.828.561 | 14.153.255 | 9.774.867 | - | - | - | 13.897 | 17.699 | - | - | - | - |
| Of which: Other | - | 127.496 | 283.612 | - | - | - | - | - | - | - | - | - |
| **Total exposure** | **10.828.561** | **14.280.751** | **10.239.683** | - | - | - | **13.897** | 17.699 | - | - | - | - |

As at 31 December 2018, 98,32% 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 2018:
- Moody's Investors Service Ba3 / stable outlook
- Fitch Ratings BB / stable outlook
- Standard and Poor's BB / stable outlook

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**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

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

**RSD in thousand**

| | 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** |
| Derivative receivables | 64.664 | - | **64.664** | - | **64.664** |
| Securities | 32.293.269 | 45.424 | **32.247.845** | - | **32.247.845** |
| Loans and receivables from banks and other financial organizations | 2.211.657 | 12.687 | **2.198.970** | - | **2.198.970** |
| Loans and receivables from customers | 114.731.677 | 4.258.948 | **110.472.729** | - | **110.472.729** |
| Investments in associates and joint ventures | - | - | **-** | 118 | **118** |
| Investments in subsidiaries | - | - | **-** | - | **-** |
| Intangible assets | - | - | **-** | 255.553 | **255.553** |
| Properly, plant and equipment | - | - | **-** | 1.078.617 | **1.078.617** |
| Current tax assets | - | - | **-** | 3.386 | **3.386** |
| Deferred tax assets | - | - | **-** | 2.261 | **2.261** |
| Non-current assets held for sale and discontinued operations | - | - | **-** | 12.288 | **12.288** |
| Other assets | 756.671 | 57.331 | **699.340** | 454.771 | **1.154.111** |
| **Balance sheet** | **159.351.689** | **4.374.390** | **154.977.299** | **13.287.270** | **168.264.569** |
| 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** | **196.582.540** | **4.700.373** | **191.882.167** | **229.289.775** | **421.171.942** |

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Overview of securities:**

RSD thousand

| | 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: Government 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: Government 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: Government 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- / positive outlook

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Loans and receivables from customers, banks and other financial institutions**

**(a) Overview by credit quality of receivables and non-problematic value of collaterals by which they are insured as at 31 December 2018:**

RSD thousand

| | The credit quality of non-problematic receivables[2] | | | | Value of collaterals* | | |
|---|---|---|---|---|---|---|---|
| | **High** | **Medium** | **Low** | **Problematic receivables[3]** | **Non-problematic receivables** | **Problematic receivables** | **The impact of collateral on reducing the value of impairment** |
| **Receivables from retail clients** | **51.269.379** | **9.264.156** | **2.120.818** | **1.471.081** | **29.519.378** | **411.675** | **260.548** |
| Housing loans | 32.061.933 | 2.140.156 | 587.349 | 730.266 | 28.861.166 | 411.183 | 258.370 |
| Consumer and Cash Loans | 17.135.887 | 6.604.159 | 1.408.994 | 613.057 | 75.166 | 492 | 1.377 |
| Transactional and Credit Card | 534.743 | 145.417 | 31.733 | 13.214 | 796 | - | 18 |
| Other receivables | 1.536.815 | 374.424 | 92.742 | 114.544 | 582.250 | - | 784 |
| **Receivables from corporate clients** | **60.670.371** | **19.208.458** | **1.914.432** | **884.484** | **24.155.754** | **357.224** | **309.474** |
| Large entities | 14.902.132 | 888.985 | - | 1.503 | 5.127.413 | - | 22.185 |
| Small and medium-sized entities | 31.549.540 | 12.142.542 | 180.152 | 515.855 | 14.034.811 | 198.189 | 165.109 |
| Micro enterprises and entrepreneurs | 11.199.950 | 5.506.303 | 1.647.172 | 315.822 | 3.975.964 | 144.847 | 106.834 |
| Agricultural producers | 83.329 | 122.907 | 87.108 | 42.753 | 104.176 | 14.187 | 15.346 |
| Public companies | 2.935.420 | 547.721 | - | 8.552 | 913.390 | - | - |
| **Receivables from other clients** | **4.283.530** | **97.071** | **1** | **111.110** | **478.841** | **20.311** | **13.519** |
| **Total receivables** | **116.223.280** | **28.569.685** | **4.035.251** | **2.466.675** | **54.153.973** | **789.209** | **583.541** |

* 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.

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**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Loans and receivables from customers, banks and other financial institutions**

**(a) Overview by credit quality of receivables and non-problematic value of collaterals by which they are insured as at 31 December 2017:**

**RSD thousand**

| | The credit quality of non-problematic receivables | | | Problematic receivables | Value of collaterals | | The impact of collateral on reducing the value of impairment |
|---|---|---|---|---|---|---|---|
| | High | Medium | Low | | Non-problematic receivables | Problematic receivables | |
| **Receivables from retail clients** | **40.507.076** | **4.640.748** | **1.075.184** | **1.583.972** | **19.444.751** | **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 |
| Transactional and Credit Card | 652.117 | 104.604 | 20.339 | 20.190 | 1.533 | 136 | 53 |
| Other receivables | 1.695.008 | 267.525 | 73.723 | 168.520 | 445.106 | 1.200 | 4.915 |
| **Receivables from corporate clients** | **56.454.519** | **3.739.280** | **482.239** | **1.607.122** | **20.040.958** | **925.359** | **625.636** |
| Large entities | 9.042.234 | 76.635 | - | 416.685 | 4.683.766 | 415.599 | 144.502 |
| Small and medium-sized entities | 36.231.069 | 1.052.534 | 102.368 | 774.044 | 11.258.820 | 238.114 | 286.108 |
| Micro enterprises and entrepreneurs | 9.355.457 | 1.069.814 | 208.832 | 354.509 | 1.957.212 | 252.768 | 175.525 |
| Agricultural producers | 101.920 | 95.154 | 37.516 | 59.547 | 127.905 | 18.877 | 16.516 |
| Public companies | 1.723.840 | 1.445.143 | 133.523 | 2.336 | 2.013.254 | - | 2.986 |
| **Receivables from other clients** | **5.437.940** | **734.171** | **1** | **681.084** | **662.414** | **439.619** | **99.387** |
| **Total receivables** | **102.399.534** | **9.114.198** | **1.557.423** | **3.872.177** | **40.148.123** | **1.908.098** | **1.168.015** |

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## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**(a) Overview of the gross and net credit exposure by sectors and categories of receivables, according to the type of impairment, the maturity and the value of collaterals as at 31 December 2018:**

RSD thousand

| | Non-impaired receivables[4] | | Impaired receivables [5] | | | Accumulated impairment | | | | Value of collaterals | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Not due | Due | Individually impaired | Collectively impaired | Total gross receivables | Impairment of non-impaired receivables | Individually impaired | Collectively impaired | Total net receivables | Non-impaired receivables | Impaired receivables |
| **By sectors** | | | | | | | | | | | |
| **Receivables from retail** | **62.539.842** | **255.620** | **584.519** | **745.454** | **64.125.435** | **774.890** | **323.762** | **529.098** | **62.497.685** | **29.594.299** | **336.754** |
| Housing loans | 34.833.317 | 44.876 | 570.399 | 71.112 | **35.519.704** | 350.333 | 311.149 | 46.934 | **34.811.288** | 28.936.086 | 336.262 |
| Consumer and Cash Loans | 25.042.051 | 157.158 | 4.653 | 558.236 | **25.762.098** | 396.235 | 3.276 | 384.962 | **24.977.623** | 75.166 | 492 |
| Transactional and Credit Card | 710.442 | 1.763 | 284 | 12.618 | **725.107** | 6.801 | 267 | 8.697 | **709.342** | 796 | - |
| Other receivables | 1.954.032 | 51.823 | 9.183 | 103.488 | **2.118.526** | 21.520 | 9.070 | 88.504 | **1.999.431** | 582.250 | - |
| **Receivables from corporate clients** | **81.547.398** | **247.503** | **791.262** | **91.582** | **82.677.745** | **1.033.143** | **604.210** | **72.450** | **80.967.942** | **24.157.396** | **355.582** |
| Large entities | 15.769.332 | 21.785 | 1.503 | - | **15.792.620** | 83.114 | 1.503 | - | **15.708.003** | 5.127.413 | - |
| Small and medium-sized entities | 43.738.471 | 135.403 | 474.209 | 40.004 | **44.388.087** | 406.803 | 387.812 | 35.642 | **43.557.831** | 14.036.453 | 196.548 |
| Micro enterprises and entrepreneurs | 18.281.584 | 71.842 | 270.339 | 45.483 | **18.669.248** | 432.208 | 182.463 | 31.493 | **18.023.084** | 3.975.964 | 144.847 |
| Agricultural producers | 278.566 | 14.778 | 39.039 | 3.714 | **336.097** | 17.902 | 26.262 | 2.933 | **289.000** | 104.176 | 14.187 |
| Public companies | 3.479.446 | 3.695 | 6.171 | 2.382 | **3.491.693** | 93.116 | 6.171 | 2.382 | **3.390.025** | 913.390 | - |
| From other clients | **4.306.085** | **74.534** | **99.151** | **11.942** | **4.491.712** | **18.212** | **87.827** | **11.941** | **4.373.731** | **478.841** | **20.311** |
| **Total exposure** | **148.393.325** | **577.656** | **1.474.932** | **848.978** | **151.294.891** | **1.826.244** | **1.015.800** | **613.489** | **147.839.359** | **54.230.536** | **712.647** |
| Non-problematic receivables | 148.252.318 | 575.898 | - | - | **148.828.216** | 1.804.149 | - | - | **147.024.067** | 54.153.973 | - |
| of which: Restructured | 826.053 | 2.128 | - | - | **828.181** | 134.831 | - | - | **693.350** | 136.046 | - |
| Problematic receivables | 141.009 | 1.758 | 1.474.931 | 848.977 | **2.466.675** | 22.095 | 1.015.799 | 613.489 | **815.292** | 76.562 | 712.647 |
| of which: Restructured | 126.375 | 1.637 | 359.976 | 200.533 | **688.521** | 20.347 | 208.393 | 138.704 | **321.077** | 64.430 | 188.620 |
| **Total exposure** | **148.393.327** | **577.656** | **1.474.931** | **848.977** | **151.294.891** | **1.826.244** | **1.015.799** | **613.489** | **147.839.359** | **54.230.536** | **712.647** |

[4] By non-impaired receivables, the Group considers receivables which are not in the default status and receivables without indicators of impairment
[5] By impaired receivables, the Group considers receivables which are in default status with impairment indicator

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**(b) Overview of the gross and net credit exposure by sectors and categories of receivables, according to the type of impairment, the maturity and the value of collaterals as at 31 December 2017:**

RSD in thousand

| | Non-impaired receivables [6] | | Impaired receivables [7] | | | Accumulated impairment | | | | Value of collaterals | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Not due | Due | Individually impaired | Collectivel y impaired | Total gross receivables | Impairment of non-impaired receivables | Individually impaired | Collectively impaired | Total net receivables | Non-impaired receivables | Impaired receivables |
| **By sectors** | | | | | | | | | | | |
| **Receivables from retail** | **46.155.127** | **221.949** | **655.491** | **774.413** | **47.806.980** | **785.714** | **347.388** | **513.018** | **46.160.859** | **19.506.668** | **481.202** |
| Housing 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 |
| Transactional and Credit Card | 775.535 | 1.825 | 101 | 19.788 | 797.249 | 15.341 | 101 | 13.576 | 768.231 | 1.533 | 136 |
| Other receivables | 1.991.312 | 47.512 | 14.592 | 151.362 | 2.204.777 | 42.392 | 11.258 | 129.580 | 2.021.548 | 445.106 | 1.200 |
| **Receivables from corporate clients** | **60.411.289** | **264.749** | **1.543.495** | **63.626** | **62.283.158** | **773.628** | **1.153.339** | **52.080** | **60.304.111** | **20.040.958** | **925.359** |
| Large entities | 9.079.181 | 39.687 | 416.085 | 599 | 9.535.554 | 107.383 | 314.970 | 240 | 9.112.961 | 4.683.766 | 415.599 |
| Small and medium-sized entities | 37.235.782 | 150.190 | 743.963 | 30.080 | 38.160.016 | 404.714 | 601.331 | 28.654 | 37.125.317 | 11.258.821 | 238.114 |
| Micro enterprises and entities | 10.573.434 | 60.668 | 332.290 | 22.220 | 10.988.612 | 212.336 | 197.510 | 15.622 | 10.563.143 | 1.957.212 | 252.768 |
| Agricultural producers | 226.712 | 7.877 | 51.157 | 8.390 | 294.136 | 9.574 | 39.528 | 5.228 | 239.806 | 127.906 | 18.877 |
| Public companies | 3.296.179 | 6.326 | - | 2.336 | 3.304.841 | 39.620 | - | 2.336 | 3.262.885 | 2.013.254 | - |
| **From other clients** | **6.073.752** | **98.360** | **658.012** | **23.072** | **6.853.196** | **55.605** | **567.790** | **23.072** | **6.206.729** | **662.414** | **439.619** |
| **Total exposure** | **112.640.167** | **585.058** | **2.856.998** | **861.111** | **116.943.334** | **1.614.947** | **2.068.517** | **588.170** | **112.671.699** | **40.210.041** | **1.846.180** |
| **By category of receivables** | | | | | | | | | | | |
| Non-problematic receivables | 112.488.758 | 582.399 | - | - | **113.071.157** | 1.598.251 | - | - | **111.472.906** | 40.148.123 | - |
| of which: restructured | 305.860 | 2.354 | - | - | **308.213** | 26.501 | - | - | **281.712** | 115.711 | - |
| Problematic receivables | 151.409 | 2.659 | 2.856.998 | 861.111 | **3.872.177** | 16.696 | 2.068.517 | 588.170 | **1.198.794** | 61.918 | 1.846.180 |
| 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** | **112.640.167** | **585.058** | **2. 856.998** | **861.111** | **116.943.334** | **1.614.947** | **2.068.517** | **588.170** | **112.671.699** | **40.210.041** | **1.846.180** |

[6] By non-impaired receivables, the Group considers receivables which are not in the default status and receivables without indicators of impairment

[7] By impaired receivables, the Group considers receivables which are in default status with impairment indicator

## 35. RISK MANAGEMENT (continued)

### 35.2 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 2018:**

RSD in thousand

| | Non-impaired receivables | | | | | Impaired receivables | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | not in delay | within 30 days | from 31 to 60 days | from 61 to 90 years | over 90 days | not in delay | do 90 dana | from 91 to 180 days | from 181 to 360 days | over 360 days |
| **Receivables from retail** | **54.369.627** | **8.070.199** | **289.631** | **66.005** | **-** | **290.756** | **317.736** | **154.531** | **174.328** | **392.621** |
| Housing loans | 34.090.385 | 703.854 | 78.011 | 5.943 | - | 183.591 | 85.825 | 36.396 | 51.372 | 284.328 |
| Consumer and Cash Loans | 18.028.473 | 6.939.069 | 178.846 | 52.821 | - | 98.776 | 218.913 | 101.427 | 105.706 | 38.068 |
| Transactional and Credit Card | 691.412 | 2.839 | 14.770 | 3.185 | - | 2.651 | 1.673 | 3.815 | 3.391 | 1.372 |
| Other receivables | 1.559.358 | 424.437 | 18.005 | 4.055 | - | 5.739 | 11.325 | 12.892 | 13.860 | 68.853 |
| **Receivables from corporate clients** | **79.754.713** | **2.002.442** | **32.475** | **5.271** | **-** | **256.129** | **114.313** | **36.194** | **74.435** | **401.772** |
| Large entities | 15.778.264 | 12.853 | - | - | - | - | - | - | - | 1.503 |
| Small and medium-sized entities | 42.467.437 | 1.388.274 | 13.571 | 4.593 | - | 252.790 | 100.678 | 22.052 | 4.073 | 134.619 |
| Micro enterprises and entities | 17.785.980 | 553.102 | 13.666 | 678 | - | 1.291 | 13.634 | 12.437 | 69.952 | 218.508 |
| Agricultural producers | 243.654 | 44.452 | 5.238 | 0 | - | 2.048 | - | 1.671 | 410 | 38.623 |
| Public companies | 3.479.379 | 3.761 | - | - | - | - | - | 35 | - | 8.517 |
| From other clients | **4.379.528** | **1.090** | **-** | **-** | **-** | **20** | **-** | **-** | **-** | **111.073** |
| **Total exposure** | **138.503.869** | **10.073.731** | **322.106** | **71.276** | **-** | **546.906** | **432.049** | **190.725** | **248.763** | **905.466** |
| **By category of receivables** | - | - | - | - | - | - | - | - | - | |
| Non-problematic receivables | 138.426.323 | 10.038.728 | 292.715 | 70.448 | - | - | - | - | - | - |
| of which: restructured | 747.772 | 73.810 | 6.599 | - | - | - | - | - | - | - |
| Problematic receivables | 77.545 | 35.003 | 29.391 | 828 | - | 546.906 | 432.049 | 190.725 | 248.763 | 905.466 |
| of which: restructured | 63.520 | 34.276 | 29.388 | 828 | - | 229.206 | 173.423 | 27.730 | 79.325 | 50.824 |
| **Total exposure** | **138.503.869** | **10.073.731** | **322.106** | **71.276** | **-** | **546.906** | **432.049** | **190.725** | **248.763** | **905.466** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.2 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:**

**RSD in thousand**

| | Non-impaired receivables | | | | | Impaired receivables | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Not in delay** | **Within 30 days** | **From 31 to 60 days** | **From 61 to 90 days** | **Over 91 days** | **Not in delay** | **Within 90 days** | **From 91 to 180 days** | **From 180 to 360 days** | **Over 360** |
| **Receivables from retail** | **39.274.174** | **6.765.043** | **260.212** | **77.619** | **25** | **259.536** | **285.562** | **162.355** | **180.140** | **542.311** |
| Housing 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 |
| Transactional and Credit Card | 755.392 | 3.192 | 15.399 | 3.377 | - | 4.326 | 2.172 | 4.709 | 3.620 | 5.063 |
| Other receivables | 1.460.347 | 544.827 | 28.040 | 5.584 | 25 | 9.076 | 22.694 | 14.297 | 19.643 | 100.242 |
| **Receivables from corporate clients** | **56.432.105** | **4.190.660** | **46.205** | **7.069** | - | **396.400** | **40.518** | **12.895** | **17.426** | **1.139.882** |
| Large entities | 9.037.418 | 81.450 | 1 | - | - | 599 | - | - | - | 416.085 |
| Small and medium-sized entities | 34.709.525 | 2.660.612 | 15.835 | - | - | 278.297 | 28.312 | 12 | 16.010 | 451.412 |
| Micro enterprises and entities | 9.203.054 | 1.400.820 | 23.612 | 6.617 | - | 117.497 | 6.429 | 1.785 | 168 | 228.631 |
| Agricultural producers | 211.088 | 21.581 | 1.470 | 451 | - | 8 | 5.776 | 11.098 | 1.248 | 41.417 |
| Public companies | 3.271.021 | 26.197 | 5.287 | - | - | - | - | - | - | 2.336 |
| From other clients | **6.136.974** | **35.138** | **-** | **-** | **-** | **1** | **17** | **-** | **207** | **680.859** |
| **Total exposure** | **101.843.254** | **10.990.840** | **306.418** | **84.688** | **25** | **655.938** | **326.097** | **175.250** | **197.773** | **2.363.051** |
| **By category of receivables** | - | - | - | - | - | - | - | - | - | - |
| Non-problematic receivables | 101.790.865 | 10.937.676 | 260.511 | 82.105 | - | - | - | - | - | - |
| of which: restructured | 237.970 | 67.156 | 2.942 | 146 | - | - | - | - | - | - |
| Problematic receivables | 52.389 | 53.164 | 45.907 | 2.583 | 25 | 655.938 | 326.097 | 175.250 | 197.773 | 2.363.051 |
| of which: restructured | 51.313 | 51.821 | 45.702 | 2.532 | - | 528.870 | 109.750 | 21.326 | 18.124 | 968.153 |
| **Total exposure** | **101.843.254** | **10.990.840** | **306.418** | **84.688** | **25** | **655.938** | **326.097** | **175.250** | **197.773** | **2.363.051** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**(g) Data on problematic receivables as at 31 December 2018:**

RSD thousand

| | The gross value of receivables | Accumulated allowance for impairment of total receivables | The gross value of problematic receivables – Total | The gross value of problematic receivables – of which: restructured receivables | Accumulated allowance for impairment of problematic receivables | % problematic receivables | The value of collaterals of problematic receivables |
|---|---|---|---|---|---|---|---|
| **Retail receivables** | **64.125.435** | **1.627.750** | **1.471.081** | **499.895** | **874.953** | **2,29** | **411.675** |
| Housing loans | 35.519.704 | 708.416 | 730.266 | 275.681 | 375.028 | 2,06 | 411.183 |
| Consumer and Cash Loans | 25.762.098 | 784.474 | 613.057 | 220.280 | 393.240 | 2,38 | 492 |
| Transactional and Credit Card | 725.107 | 15.765 | 13.214 | - | 8.982 | 1,82 | - |
| Other receivables | 2.118.526 | 119.095 | 114.544 | 3.934 | 97.703 | 5,41 | - |
| **Receivables from corporate clients*** | **76.656.046** | **1.518.084** | **802.409** | **184.035** | **617.563** | **1,05** | **340.213** |
| Sector A | 6.010.305 | 94.362 | 51.801 | 35.639 | 32.288 | 0,86 | 46.268 |
| Sector B, C, E | 16.388.959 | 464.187 | 321.573 | 72.262 | 253.415 | 1,96 | 155.779 |
| Sector D | 8.644.393 | 145.921 | - | - | - | - | - |
| Sector F | 13.577.949 | 121.893 | 28.532 | 11.260 | 18.098 | 0,21 | 11.260 |
| Sector G | 13.693.369 | 409.739 | 361.245 | 60.354 | 287.896 | 2,64 | 108.320 |
| Sector H, I, J | 9.344.879 | 115.533 | 32.228 | - | 23.875 | 0,34 | 13.230 |
| Sector L, M, N | 8.996.192 | 166.449 | 7.031 | 4.521 | 1.992 | 0,08 | 5.356 |
| **Receivables from other clients** | **10.513.411** | **309.698** | **193.186** | **4.591** | **158.867** | **1,84** | **37.322** |
| **Total receivables** | **151.294.891** | **3.455.532** | **2.466.675** | **688.521** | **1.651.383** | **1,63** | **789.209** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**(g) Data on problematic receivables as at 31 December 2017:**

RSD thousand

| | The gross value of receivables | Accumulated allowance for impairment of total receivables | The gross value of problematic receivables: Total | The gross value of problematic receivables: of which: restructured receivables | Accumulated allowance for impairment of problematic receivables | % problematic receivables | The value of collaterals of problematic receivables |
|---|---|---|---|---|---|---|---|
| **Retail receivables** | **47.806.978** | **1.646.119** | **1.583.972** | **463.530** | **877.101** | **3,31** | **543.120** |
| Housing loans | 25.359.666 | 661.519 | 794.528 | 260.854 | 376.474 | 3,13 | 540.434 |
| Consumer and Cash Loans | 19.445.288 | 772.354 | 600.733 | 189.359 | 345.949 | 3,09 | 1.350 |
| Transactional and Credit Card | 797.249 | 29.018 | 20.190 | - | 13.688 | 2,53 | 136 |
| Other receivables | 2.204.776 | 183.228 | 168.520 | 13.317 | 140.990 | 7,64 | 1.200 |
| **Receivables from corporate clients*** | **57.283.690** | **1.823.185** | **1.511.500** | **1.018.873** | **1.135.650** | **2,64** | **896.131** |
| Sector A | 2.429.555 | 103.212 | 73.908 | 47.243 | 52.450 | 3,04 | 19.474 |
| Sector B, C, E | 14.470.866 | 667.157 | 671.567 | 621.159 | 503.767 | 4,64 | 551.545 |
| Sector D | 5.674.910 | 79.971 | - | - | - | - | - |
| Sector F | 10.677.961 | 189.842 | 123.168 | 119.208 | 116.730 | 1,15 | 25.697 |
| Sector G | 11.479.578 | 524.837 | 493.152 | 224.072 | 360.071 | 4,30 | 212.477 |
| Sector H, I, J | 5.700.486 | 94.997 | 18.161 | - | 14.009 | 0,32 | 5.487 |
| Sector L, M, N | 6.850.334 | 163.169 | 131.543 | 7.191 | 88.624 | 1,92 | 81.452 |
| **Receivables from other clients** | **11.852.665** | **802.331** | **776.706** | **315.188** | **660.632** | **6,55** | **468.846** |
| **Total receivables** | **116.943.334** | **4.271.635** | **3.872.177** | **1.797.591** | **2.673.383** | **3,31** | **1.908.098** |

* Sector A - Electricity, gas, steam and air conditioning
Sector B, C, E – Construction
Sector D - Agriculture, forestry, fishing
Sector F - Mining, manufacturing, water supply, waste water, process control waste management and remediation activities
Sector G - Wholesale and retail trade, repair of motor vehicles and motorcycles
Sector H, I, J - Transportation and warehousing, accommodation and food services, information and communication
Sector L, M, N - Real estate, professional, scientific and technical activities, administrative and support service activities, arts

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**(b) Data on problematic receivables as at 31 December 2018:**

**RSD thousand**

| | Gross value at beginning of year | New problematic receivables | Decrease of problematic receivables: Total | of which: charged | of which: transferred to the category of non-problematic receivables | of which: written off | Other changes[8] | Gross value at end of year | Net value at end of year |
|---|---|---|---|---|---|---|---|---|---|
| Retail receivables | 1.583.972 | 751.397 | 917.067 | 343.974 | 194.314 | 378.779 | 52.779 | 1.471.081 | 596.129 |
| Receivables from corporate clients | 2.288.205 | 439.360 | 848.205 | 431.310 | 9.909 | 406.986 | (883.765) | 995.595 | 219.164 |
| **Total receivables** | **3.872.176** | **1.190.757** | **1.765.272** | **775.284** | **204.223** | **785.765** | **(830.986)** | **2.466.676** | **815.293** |

**Data on problematic receivables as at 31 December 2017:**

**RSD in thousand**

| | Gross value at beginning of year | New problematic receivables | Decrease of problematic receivables: Total | of which: charged | of which: transferred to the category of non-problematic receivables | of which: write-off | Other changes | Gross value at year end | Net value at year end |
|---|---|---|---|---|---|---|---|---|---|
| Retail receivables | 2.337.082 | 782.543 | 1.562.968 | 317.533 | 366.532 | 878.903 | 27.314 | 1.583.971 | 706.870 |
| Receivables from corporate clients | 4.566.303 | 110.099 | 2.497.364 | 941.677 | 165.393 | 1.390.295 | 109.169 | 2.288.206 | 491.924 |
| **Total receivables** | **6.903.385** | **892.642** | **4.060.332** | **1.259.209** | **531.925** | **2.269.198** | **136.482** | **3.872.177** | **1.198.794** |

[8] Other changes relate to foreign exchange differences and increased exposure based on existing of problematic claims.

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

***Collaterals and other means of protection against credit risk***

During the process of credit approval, the Group expects to collect primarily from future cash flows of borrowers. As a supplement to this form of collection, and to reduce the potential losses due to the occurrence of the status of default of the debtor, the Group takes various security instruments (collaterals) as protection. The Group takes as much collaterals as possible, whereby the preferred collateral that can be quickly and easily realized. The possibility of taking collateral depends on current market situation and business competition. The effectiveness of credit risk mitigation technique is measured and controlled by monitoring the time taken for the realization of collateral and the deviation of realized value of collateral and the expected amount.

In the context of strategic risk management departments, the Department for collateral management, which is responsible for the entire collateral management process - from the preliminary analysis to the completion of its implementation. The process is divided into 3 phases:

**Analysis phase of collaterals** represents the initial phase of the process of collateral management. It begins with the identification and analysis of potential collateral and collecting necessary information and documentation, and ends with the records of the collateral in the system for recording collateral.

**Monitoring phase of collaterals** refers to monitoring of restitution and value of collaterals. One of its main function is to record, monitor, update and control data on collaterals in the system for recording collateral.

**Realization phase of collaterals** represents the last phase of the process, when it comes to the realization of collateral (e.g. its sales in order to close placements) and the closing of collateral in the system for recording collateral. It also includes the phase of data collection for the calculation of the average Collateral Recovery Ratio.

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

In addition to the process, the Collateral management department is responsible for the process of selection, monitoring and removal of appraisers from the list of acceptable appraisers by the Group, and to define the minimum content of the report on valuation, as well as control the application of appropriate methodology in the valuation of collateral, in order to provide a more accurate value of collaterals. Detailed rules for standards and valuation methodology are included in the Policy of the collateral management.

In addition to the process, the Collateral management department is responsible for the process of selection, monitoring and removal of appraisers from the list of acceptable appraisers by the Group, and to define the minimum content of the report on valuation, as well as control the application of appropriate methodology in the valuation of collateral, in order to provide a more accurate value of collaterals. Detailed rules for standards and valuation methodology are included in the Policy of the collateral management.

Reviewing the value of collaterals is done periodically, depending on the method of the verification and the type of collateral. Reviewing the value of collaterals can be separated into valuation by an external appraisers or government body authorized to determine the value (re-evaluation, Tax statement) and the internal monitoring of collaterals' value by the employees in the Department of collateral management (monitoring). The dynamics of the review of the value of collateral is defined depending on the type of collateral, and in accordance with local and internal regulations.

Within the process of calculating the capital requirement for credit risk, the Department for Management of strategic risk, after checking the compliance with applicable legal regulations defined by the Decision on capital adequacy of banks, determines whether a particular instrument is accepted as collateral to mitigate credit risk. Items of collateral which are eligible as instruments for credit risk mitigation are explained in detail in a special internal procedure of the Group which defines applicable instruments to mitigate credit risk as well as conditions for the recognition of credit risk mitigation instruments.

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Basic types of credit protection instruments**

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

At the moment, the Group 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 December 2018 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 the Group 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 favorable credit risk weight, instead of recognizing the effects of credit risk mitigation techniques. Group 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 the above mentioned, the Group applies the following credit protection instruments, but they were not taken into account in the calculation of risk-weighted assets:

- pledge on movable property;
- pledge on receivables;
- pledge on shares and bonds;
- other types as defined in the Group Catalogue of collaterals.

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Data on the type and value[9] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2018:**

**RSD thousand**

| | Type of collateral up to amount of receivables (as it is in KA4) | | | | |
|---|---|---|---|---|---|
| | **Deposits** | **Residential real estate** | **Other real estate** | **Other assets** | **Guarantees issued by the state** |
| **Receivables from retail** | **36.299** | **29.153.427** | **232.835** | **508.492** | - |
| Housing loans | 9.528 | 29.096.641 | 166.179 | - | - |
| Consumer and Cash Loans | 25.974 | 31.196 | 18.488 | - | - |
| Transactional and Credit Card | 796 | - | - | - | - |
| Other receivables | - | 25.590 | 48.168 | 508.492 | - |
| **Receivables from corporate clients** | **2.145.490** | **620.412** | **15.120.891** | **6.152.762** | **473.424** |
| Large entities | - | - | 4.412.124 | 715.289 | - |
| Small and medium-sized entities | 1.549.212 | 320.516 | 8.079.022 | 4.284.251 | - |
| Micro enterprises and entities | 596.278 | 291.554 | 2.521.325 | 711.654 | - |
| Agricultural producers | - | 8.343 | 108.419 | 1.601 | - |
| Public companies | - | - | - | 439.966 | 473.424 |
| Receivables from other clients | **44.788** | **25.401** | **335.903** | **93.059** | - |
| **Total exposure** | **2.226.577** | **29.799.241** | **15.689.629** | **6.754.312** | **473.424** |
| **According to categories of receivables** | | | | | |
| Non-problematic receivables | 2.226.577 | 29.377.787 | 15.332.057 | 6.744.128 | 473.424 |
| of which: restructured | - | 131.917 | 4.129 | - | - |
| Problematic receivables | - | 421.453 | 357.572 | 10.184 | - |
| of which: restructured | - | 135.694 | 117.355 | - | - |
| **Total exposure** | **2.226.577** | **29.799.241** | **15.689.629** | **6.754.312** | **473.424** |

[9] The value of collaterals is determined based on estimation of authorized estimator (or based on some other document according to the type of collateral), with possible internal correction, after which the effective rate (collateral haircut) is used in accordance with the catalog of collateral and decreased for the previous load.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.2 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:**

RSD thousand

| | Type of collateral up to amount of receivables (as in KA4) | | | | |
|---|---|---|---|---|---|
| | **Deposits** | **Residential real estate** | **Other real estate** | **Other assets** | **Guarantees issued by the state** |
| **Receivables from retail** | **69.863** | **19.349.080** | **203.014** | **365.913** | - |
| Housing loans | 28.057 | 19.276.792 | 134.661 | - | - |
| Consumer and Cash Loans | 40.136 | 41.307 | 18.941 | - | - |
| Transactional and Credit Card | 1.670 | - | - | - | - |
| Other receivables | - | 30.980 | 49.412 | 365.913 | - |
| **Receivables from corporate clients** | **1.006.614** | **399.970** | **13.167.610** | **4.968.524** | **1.423.601** |
| Large entities | - | - | 4.594.590 | 504.775 | - |
| Small and medium-sized entities | 695.762 | 252.921 | 7.333.823 | 3.214.431 | - |
| Micro enterprises and entities | 309.764 | 134.602 | 1.106.358 | 659.256 | - |
| Agricultural producers | 1.088 | 12.448 | 132.839 | 408 | - |
| Public companies | - | - | - | 589.653 | 1.423.601 |
| **From other clients** | **134.313** | **77.207** | **833.916** | **56.598** | - |
| **Total exposure** | **1.210.789** | **19.826.257** | **14.204.540** | **5.391.035** | **1.423.601** |
| **According to categories of receivables** | - | - | - | | - |
| Non-problematic receivables | 1.210.653 | 19.208.700 | 12.919.521 | 5.385.651 | 1.423.601 |
| of which: restructured | - | 112.366 | 3.345 | - | - |
| Problematic receivables | 136 | 617.558 | 1.285.019 | 5.384 | - |
| of which : restructured | - | 181.246 | 964.967 | - | - |
| **Total exposure** | **1.210.789** | **19.826.257** | **14.204.540** | **5.391.035** | **1.423.601** |

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**During 2018, the Group had the following assets acquired through collection of receivables.**

| Types of assets acquired through collection of receivables | Residential real estate | Other assets acquired through collection | RSD thousand Total |
|---|---|---|---|
| Gross amount at the beginning of the period* | 12.073 | 350 | 12.423 |
| Acquired during the period | - | - | - |
| Sold during the period | - | - | - |
| Gross amount at the end of the period | 12.073 | 350 | 12.423 |
| Accumulated impairment | 12.073 | 1 | 12.074 |
| of which: allowance for impairment during the period | - | 1 | 1 |
| **Net value at period end** | **-** | **349** | **349** |

**During 2017, the Group had the following assets acquired through collection of receivables.**

| Types of assets acquired through collection of receivables | Residential real estate | Other assets acquired through collection | RSD thousand Total |
|---|---|---|---|
| Gross amount at the beginning of the period* | 13.901 | 364 | 14.265 |
| Acquired during the period | - | - | - |
| Sold during the period | 1.828 | - | 1.828 |
| Gross amount at the end of the period | 12.073 | 364 | 12.437 |
| Gross amount at the beginning of the period* | 12.073 | 14 | 12.087 |
| of which: allowance for impairment during the period | - | 14 | 14 |
| **Net value at period end** | **-** | **350** | **350** |

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. In case when the Group make a decision on overtake the asset, analysis are done with the net present value method. 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 Group 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.

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**LTV ratio**

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

**RSD thousand**

| Value of the LTV indicator | The value of receivables secured by mortgages on real estate as at 31 December 2018 | The value of receivables secured by mortgages on real estate as at 31 December 2017 |
|---|---|---|
| below 50% | 8.644.820 | 3.823.580 |
| from 50% to 70% | 8.665.114 | 5.736.344 |
| from 70% to 90% | 18.080.378 | 11.506.367 |
| from 90% to 100% | 975.676 | 643.842 |
| from 100% to 120% | 1.387.649 | 1.064.246 |
| from 120% to 150% | 971.580 | 996.352 |
| over 150% | 2.591.991 | 1.588.935 |
| **Total exposure** | **41.317.208** | **25.359.666** |
| **Average LTV** | **71,8%** | **78,5%** |

*The LTV indicator represents the ratio of the gross value of the receivables to the market value of the real estate (only mortgages on the apartment or private home are taken into account and reduced by the amount of previous charges) with which the receivable is secured.

***Assessment of impairment of financial assets***

In accordance with IFRS 9, the Group has set up an adequate structure, tools and processes for the timely determination of credit risk losses. According to regulatory and accounting standards as well as economic considerations, the Group regularly evaluates the need and establishes impairment allowances due to credit losses in order to cover the expected economic losses from financial assets.

The Group classifies financial assets as assets subsequently measured at amortized cost (AC), at fair value through other comprehensive income (FVTOCI) or at fair value through profit and loss account (FVTPL):

(a) a business model for managing financial assets and
(b) characteristic of contracted cash flows of financial assets.

The Group seeks to classify its key portfolios (loans and receivables from customers, banks and other financial organizations, i.e. liabilities based on financial guarantees and assumed future liabilities) as assets measured at amortized cost, while part of the securities is classified at fair through through other comprehensive income (portfolio of securities available for sale, which is held for the purpose of adequate liquidity management where the business model also implies the collection of contractual cash flows and the potential sale of those financial assets) and fair value through profit and loss account (predominantly securities values for trading).

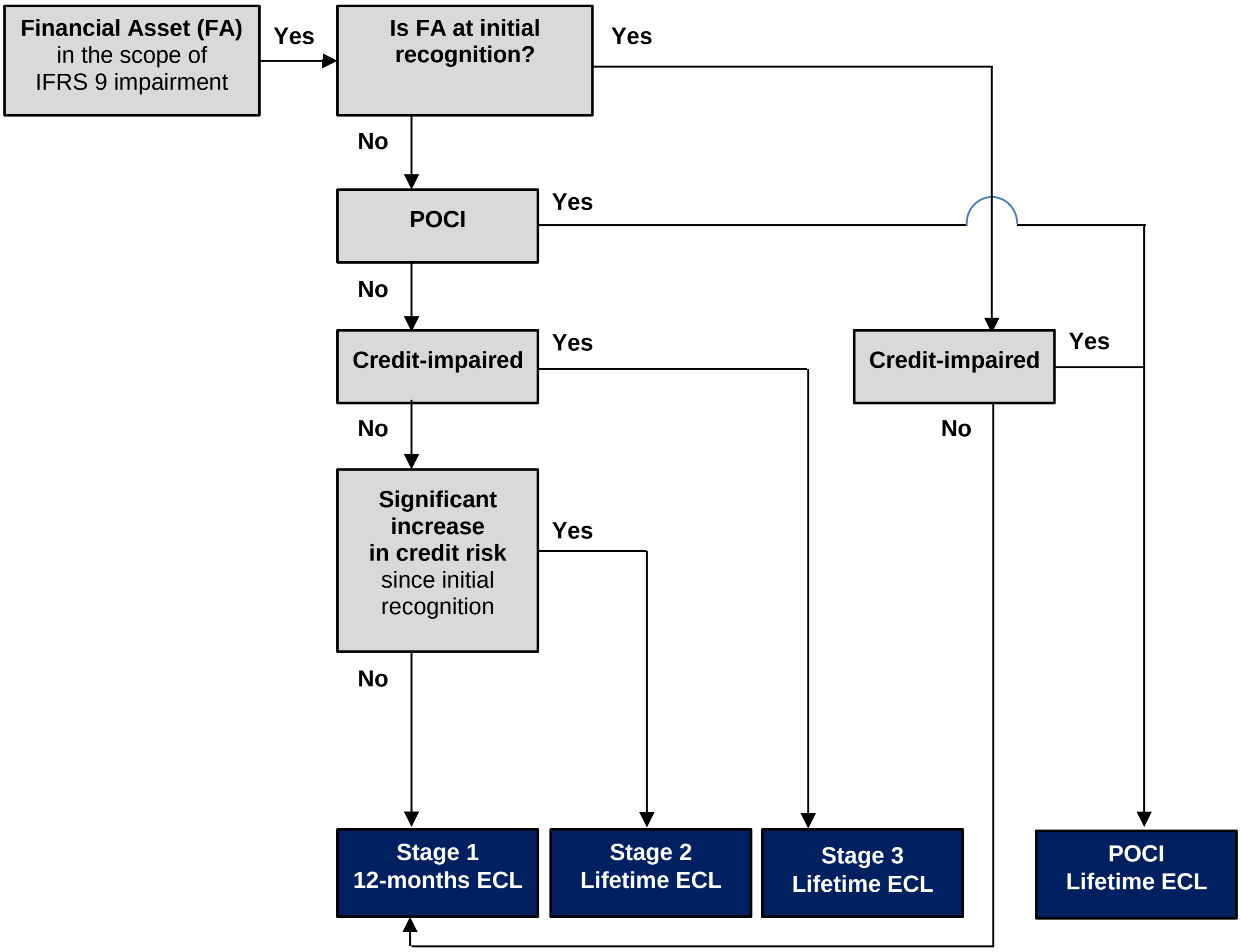
The objective of establishing an impairment allowances is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events [IFRS 9 5.5.4.] Accordingly, financial assets that are relevant from the aspect of IFRS 9 standards and classified as AC or FVTOCI are assigned to one of the three stages, unless financial assets are recognized as POCI.

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

Expected credit loss / impairment is the present value of any decrease in the expected cash flow over the expected life of the financial asset. The decrease represents the difference between the cash flows owed to the Group in accordance with the contract and the cash flows that the Group expects to receive. Since the expected credit losses take into account the amount and the time of payment, the credit loss arises even when the Group expects to pay in full but later than the maturity of the contract.

The process of forming impairment applied within the Group is shown here:



**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Stage 1**

a) Financial assets at initial recognition (other than POCI assets)

b) Financial assets meeting the requirements of low credit risk

c) Financial assets without significant increase in credit risk from initial recognition regardless of their credit quality

For Stage 1 the credit risk loss allowances are calculated as 12-months ECL

**Stage 2**

It includes financial assets with a significant increase in credit risk, but not credit-impaired at the reporting date, including initially recognized assets described above.

For Stage 2 the credit risk loss allowances are calculated as lifetime ECL.

**Stage 3**

It includes financial assets which are credit-impaired at the reporting date.

For Stage 3 the credit loss allowances are calculated as lifetime ECL.

**POCI assets**

Financial assets impaired at initial recognition. POCI assets are not subject of a transaction between the stages, i.e. independently of the change in the credit quality of the client after the initial recognition of the POCI assets, the calculation of the expected credit losses is made throughout the life of the financial asset. Also, the expected credit losses over the life of the initial recognition date of POCI assets must be taken into account when calculating the fair value of the asset (while subsequent changes in the original expectation lead to the recognition of impairment allowances due to credit losses only if they lead to lower expectations compared with the date of creation, while those that lead to better expectations in comparison with the date of initial recognition are recognized as an increase in the gross carrying amount of the asset).

The Group uses the following qualitative and quantitative criteria that indicate a significant increase in credit risk (SICR) at the time of reporting relative to the moment of initial recognition of financial assets:

**Qualitative criteria**

- **Days past due (DPD) -** The Group defines more than 30 days past due with applied materiality threshold as a backstop indicator that lifetime expected credit losses should be recognised [IFRS 9 5.5.11., B5.5.19];
- **Forbearance** - Status forbearance, assigned to a client, whether non-performing forbearance or performing forbearance, is considered as a significant increase in credit risk from the initial recognition.
- **Transfer of the client to workout department** (workout department) - The transfer to workout department is considered as significant increase in credit risk since initial recognition
- **Fraud** – In case that fraud is identified on asset level then lifetime expected credit losses should be recognised; it means financial asset is transferred either into Stage 3 in case of default or at least into Stage 2.
- **Portfolio level criteria** - The performance of the assessment of significant increase in credit risk on portfolio level is necessary if the increase in credit risk on individual instrument level is only available with a certain time lag.

Financial assets are transferred to Stage 2 if any of the qualitative criteria is activated from the moment of initial recognition until the moment of reporting and is still active.

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Quantitative criteria**

- **Relative change in the probability of a default status (PD) over a lifetime** - that is, a comparison of an annualized PD over the lifetime allocated on the reporting date and the adjusted annualized PD over the life of the assigned financial asset on initial recognition. Significant increase in credit risk from initial recognition is considered if the ratio is higher than the defined threshold. Defining the threshold is in the jurisdiction of the bank, and in accordance with the IFRS 9 Concept for estimating the SICR threshold.
- **Absolute change in the one-year probability of default status** - a comparison of 1Y PD assigned at initial recognition and 1Y PD assigned at the reporting date. An absolute change of 1Y PD above 50 bp is considered a significant increase in credit risk from initial recognition at the Group level.

Financial assets are transferred to stage 2 only if it is estimated that both relative and absolute PD changes are significant, i.e. the two changes must be greater than certain relative and absolute limits.

Transfer between stages is a symmetrical process. This means that the financial asset will be transferred from Stage 2 to Stage 1 if no SICR criteria is met.

**Calculation of expected credit losses**

In the Bank (based on the methodology provided by the Erste Group), for financial assets to non-defaulted customers, the collective assessment is applied and the lifetime expected credit loss is calculated according to the following formula:

$$ECL_{LT} = \sum_{t=1}^{M} GCA_t \cdot PD_t \cdot LGD_t \cdot D_{t-1}$$

Where

1) $ECL_{LT}$ is calculated lifetime expected credit loss;
2) M is the number of years since reporting date ($t_0$) till maturity (T) rounded up to the whole number, i.e. if the reporting date is end of May 2015 ($t_0$ = 31.5.2015) and maturity is at the end of October 2020 (T = 31 October 2020) then the remaining lifetime of the financial asset till maturity in years is 5.4, then M = 6;
3) t represents the year since reporting date;
4) $GCA_t$ is the estimate of the gross carrying amount in the t-th year since reporting date;

   It is estimated as: $GCA_t = GCA_{t0} * c_t$, where $GCA_{t0}$ is the gross carrying amount booked at reporting date and $c_t$ is the coefficient calculated according to the "Estimation Concept for the IFRS 9 Risk Parameters EAD and CCF" which depends on repayment type and expresses the financial asset repayment during the remaining maturity;

5) $PD_t$ is the estimate of the probability of default in the t-th year since reporting date;
6) $LGD_t$ is the estimate of the loss given default considered in the t-th year since reporting date;
7) $D_{t-1}$ is the discount factor applied in the t-th year since reporting date;

   It is calculated as:

$$D_{t-1} = \frac{1}{(1+EIR)^{t-1}}$$

Lifetime ECL in case of undrawn loan commitment and financial guarantee contract is calculated according to the following formula:

$$ECL_{LT} = \sum_{t=1}^{M} EXP_t \cdot PD_t \cdot LGD_t \cdot D_{t-1}$$

Where $EXP_t$ is the estimate of the exposure amount in the t-th year since reporting date which occurred due to drawn down of the undrawn loan commitment or due to payments under a financial guarantee.

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

It is estimated as: $EXP_t = \text{Off-Bal}_{t0} * CCF_t * c_t$, where

i) $\text{Off-Bal}_{t0}$ is the off-balance amount booked at reporting date;

ii) $CCF_t$ is credit conversion factor calculated according to the "Estimation Concept for the IFRS 9 Risk Parameters EAD and CCF";

For financial assets that are in the status of non-obligation of liabilities (assigned rating R). In the Group (based on the methodology provided by the Erste Group), for financial assets to defaulted customers, the lifetime expected credit loss is calculated as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR [IFRS 9 B5.5.33].

The ECL can be estimated either on individual or collective basis.

1) The individual approach is applied in case of individually significant customers.

2) The collective assessment (or so-called rule-based approach) is applied in case of individually not significant clients.

***Individual approach***

In case of ECL on financial assets of individually significant customers in default, the expected future cash flows have to be estimated individually by experts from work-out or late collection units.

More than one scenario of expected future cash flows shall be considered in ECL calculation to ensure the unbiased and probability weighted result.

In accordance with internal workout processes, typically the following scenarios should be accounted for:
1) Approved workout strategy which is the base scenario defined based on either going concern or gone concern / exit strategy;

2) Alternative base case, if applicable;

3) Contingency scenario (e.g. bankruptcy / liquidation);

4) Exit scenario (e.g. NPL sale).

The calculation of lifetime ECL for financial assets of individually significant customer in default, for each scenario is done according to following formula:

$$\mathrm{ECL}_{\mathrm{LT,s}} = \max(0; \mathrm{GCA}_{t_0} - \sum_{j=t_0}^{\infty} \frac{\mathrm{CF_j}}{(1+\mathrm{EIR})^{(j-t_0)/365}})$$

Where
1) $ECL_{LT,s}$ is the lifetime expected loss calculated for scenario s;

2) $GCA_{t0}$ is the gross carrying amount booked at reporting date ($t_0$);

3) $CF_j$ are expected cash flows at time j; the following cash flows are considered:

   a) Expected recovery payments – any principal and interest payments

   b) Expected collateral recoveries including costs for selling and obtaining collateral which are treated as negative payments

4) j is the date when the cash flow is expected;

5) EIR is original effective interest rate.

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

The final lifetime expected credit loss shall be calculated according to following formula:

$$ECL_{LT} = p_1 \cdot ECL_{LT,1} + p_2 \cdot ECL_{LT,2} + p_3 \cdot ECL_{LT,3}$$

Where

1) $ECL_{LT}$ is the probability weighted lifetime expected loss at reporting date;
2) $ECL_{LT,s}$ is the lifetime expected loss calculated for scenario s, s= 1, 2 or 3 at reporting date;
3) $p_s$ is the probability of occurrence for the scenario s, s = 1, 2 or at reporting date.
4) In case of undrawn loan commitments and financial guarantees, the lifetime ECL calculation is extended by the estimation of the expected future outflow. Afterwards, the calculation formula for one scenario is:

$$ECL_{LT,s} = \max(0; \sum_{i=t_0}^{\infty} \frac{CF_i}{(1+EIR)^{(j-t_0)/365}} - \sum_{j=t_0}^{\infty} \frac{CF_j}{(1+EIR)^{(j-t_0)/365}})$$

Where

a) $ECL_{LT,s}$ is the lifetime expected loss calculated for scenario s;
b) $CF_i$ are expected cash outflows at time I, i.e. drawdown of the undrawn part of loan commitment or the usage of the financial guarantee:
c) $CF_j$ are expected cash inflows at time j; the following cash flows are considered:
   i) Expected recovery payments – any principal and interest payments
   ii) Expected collateral recoveries including costs for selling and obtaining collateral which are treated as negative payments
d) i is the date when the cash outflow is expected.

***Rule based approach***

In case of ECL on financial assets of individually not significant customers in default, the expected future cash flows can be estimated rule based. The calculation formula for lifetime ECL on financial assets of individually not significant customers in default is:

$$ECL_{LT} = GCA_{t0} \cdot LGD_{tiD}$$

Where
1) $ECL_{LT}$ is the lifetime expected loss at reporting date;
2) $GCA_{t0}$ is the gross carrying amount booked at reporting date ($t_0$);
3) $LGD_{tiD}$ it the loss given default defined as a function of the time in default (tiD);

In case of undrawn loan commitments and financial guarantees, the lifetime ECL is calculated according to the formula:

$$ECL_{LT} = Off\text{-}Bal_{t0} \cdot CCF \cdot LGD_{tiD}$$

Where:

a) $Off\text{-}Bal_{t0}$ is the off-balance amount booked at reporting date ($t_0$);
b) CCF is the credit conversion factor calculated according to the "Estimation Concept for the IFRS 9 Risk Parameters EAD and CCF".

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Risk parameters used to calculate expected credit losses**

- PD - Probability of Default

PD represents the probability that the performing client will fall into the status of default in the period of 12 months, or in the lifetime of the product.

PD one-year, represents the probability of the client leaving the status of default in the next 12 months (or during the remaining period of the financial instrument if shorter than 12 months). The parameter is used to calculate the ECL for exposure in Stage 1 (Impairment Stage 1).

PD over a lifetime represents the calculated probability of the client going into the status of default during the remaining repayment period of a financial instrument. The parameter is used to calculate the ECL for exposure in Stage 2 and Stage 3.

Estimating the one-year and lifetime PD values is done on the available customer history data of the respective segment, using different statistical approaches depending on the client segment (migration matrix, historical average default rate, forward-looking information, etc.).

- LGD - Loss Given Default

LGD is the expected percentage loss that the bank incurs in the event that the exposure becomes a default status.

The statistical LGD calculated on the basis of historical losses of the Group's clients is calculated for the segment of individuals and micro clients and applies to individuals as of 30 June 2018 while for micro clients the application is planned from 31 July 2018. The calculation of statistical LGD based on historical losses for the Legal entities - Corporate segment is in progress, the plan is to calculate and implement the parameter by the end of 2018. For the mentioned segment, the Group is currently using the expert values of LGD (taking into account collateral coverage)

- CCF - Credit Conversion Factor

CCF represents the percentage of off-balance sheet exposure that can be transferred to the balance sheet exposure of the bank to the debtor by default. Given that the Group does not have sufficient historical data for the statistical assessment of the CCF parameter, in the ECL calculation, the regulatory values of the prescribed CRR - Foundation Approach are used.

**The table below contains information about modified receivables:**

**RSD thousand**

| | **Net book value of receivables prior to modification** | **The effect of modification recorded through the profit and loss account** |
|---|---|---|
| ***Loans and receivables from banks and other financial organizations*** | | |
| Insurance companies | 82.686 | - |
| Construction | 14.423 | - |
| Agriculture and food industry | 28.775 | 2.626 |
| Entrepreneurs | 2.377 | 7 |
| Manufacturing industry | 1.346.706 | 19.900 |
| Production and supply of electricity | 938.153 | 34.460 |
| Retail | 47.127 | 3.597 |
| Customers | 272.132 | (164) |
| Services and tourism | 710.692 | 19.785 |
| **Balance as at 31 December** | **3.443.072** | **80.211** |

The effects of modification as of 31 December 2018 amounted to RSD 80.211 thousand**.**

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Information on changes of impaired receivables in 2018:**

RSD thousand

| | Gross value at the beginning of the period | Receivables that are impaired during the year | | Receivables that have ceased to be impaired during the year | | Other changes | Gross value at period end | Net value at period end |
|---|---|---|---|---|---|---|---|---|
| | | Total | of which: impaired on an individual basis | Total | of which: were impaired on an individual basis | | | |
| **Receivables from retail** | **1.429.904** | **572.985** | **68.632** | **215.514** | **76.720** | **(457.401)** | **1.329.973** | **477.112** |
| Housing loans | 719.877 | 99.870 | 66.279 | 88.124 | 71.266 | (90.111) | 641.512 | 283.429 |
| Consumer and Cash Loans | 524.184 | 422.265 | 2.184 | 102.907 | 400 | (280.653) | 562.889 | 174.650 |
| Transactional and Credit Card | 19.890 | 11.294 | 86 | 5.561 | - | (12.722) | 12.902 | 3.938 |
| Other receivables | 165.953 | 39.556 | 83 | 18.923 | 5.054 | (73.915) | 112.670 | 15.095 |
| **Receivables from corporate clients** | **1.607.122** | **320.533** | **282.519** | **77.637** | **76.516** | **(967.174)** | **882.844** | **206.184** |
| Large entities | 416.685 | - | - | 48.378 | 48.378 | (366.804) | 1.503 | - |
| Small and medium-sized entities | 774.044 | 274.469 | 266.545 | 11.739 | 11.064 | (522.561) | 514.213 | 90.760 |
| Micro enterprises and entities | 354.509 | 44.101 | 15.974 | 17.110 | 17.074 | (65.678) | 315.822 | 101.866 |
| Agricultural producers | 59.547 | 1.963 | - | 410 | - | (18.348) | 42.753 | 13.558 |
| Public companies | 2.336 | - | - | - | - | 6.217 | 8.553 | - |
| **From other clients** | **681.084** | - | - | - | - | **(569.991)** | **111.093** | **11.324** |
| **Total receivables** | **3.718.109** | **893.518** | **351.151** | **293.151** | **153.236** | **(1.994.566)** | **2.323.910** | **694.621** |

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**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Information on changes of impaired receivables in 2017:**

**RSD in thousand**

| | Gross value at the beginning of the period | Receivables that are impaired during the year | | Receivables that have ceased to be impaired during the year | | Other changes | Gross value at period end | Net value at period end |
|---|---|---|---|---|---|---|---|---|
| | | Total | of which: impaired on an individual basis | Total | of which: were impaired on an individual basis | | | |
| **Receivables from retail** | **2.172.429** | **548.250** | **115.355** | **312.486** | **64.810** | **(978.289)** | **1.429.904** | **569.502** |
| Housing 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 |
| Transactional and Credit Card | 54.330 | 14.054 | - | 7.413 | - | (41.081) | 19.890 | 6.212 |
| Other receivables | 290.124 | 54.389 | - | 29.107 | - | (149.453) | 165.953 | 25.117 |
| **Receivables from corporate clients** | **3.115.624** | **79.307** | **60.325** | **284.113** | **250.440** | **(1.303.697)** | **1.607.122** | **401.698** |
| Large entities | 32.997 | - | - | - | - | 383.688 | 416.685 | 101.475 |
| Small and medium-sized entities | 1.932.552 | 52.093 | 48.975 | 101.913 | 76.785 | (1.108.689) | 774.044 | 144.056 |
| Micro enterprises and entities | 749.529 | 9.664 | - | 19.153 | 12.565 | (385.531) | 354.509 | 141.376 |
| Agricultural producers | 75.796 | 17.549 | 11.350 | 1.957 | - | (31.841) | 59.547 | 14.791 |
| Public companies | 324.750 | - | - | 161.090 | 161.090 | (161.324) | 2.336 | - |
| **From other clients** | **1.445.017** | **1.634** | - | **52.125** | **50.810** | **(713.443)** | **681.084** | **90.222** |
| **Total receivables** | **6.733.070** | **629.191** | **175.680** | **648.723** | **366.060** | **(2.995.429)** | **3.718.109** | **1.061.422** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Information on changes of impaired receivables in 2018:**

RSD in thousand

| | Accumulated allowance for impairment at the beginning of year | Transition effects | Accumulated allowance for impairment at the beginning of year | Allowances for impairment recognized during the period | Reversal of impairment during the period | Other changes | Accumulated allowance for impairment at the end of 2018 |
|---|---|---|---|---|---|---|---|
| **Receivables from retail** | **1.646.118** | **122.924** | **1.769.042** | **2.758.172** | **2.570.290** | **(329.174)** | **1.627.750** |
| Housing loans | 661.516 | 51.724 | 713.240 | 808.584 | 791.343 | (22.065) | 708.416 |
| Consumer and Cash Loans | 772.357 | 69.087 | 841.444 | 1.823.772 | 1.654.238 | (226.503) | 784.474 |
| Transactional and Credit Card | 29.018 | 930 | 29.948 | 50.324 | 54.347 | (10.160) | 15.765 |
| Other receivables | 183.228 | 1.184 | 184.411 | 75.492 | 70.362 | (70.446) | 119.095 |
| **Receivables from corporate clients** | **1.979.048** | **(595.381)** | **1.383.667** | **2.689.926** | **2.459.556** | **95.764** | **1.709.801** |
| Large entities | 422.593 | (313.218) | 109.374 | 231.429 | 398.652 | 142.465 | 84.617 |
| Small and medium-sized entities | 1.034.698 | (277.179) | 757.519 | 1.540.132 | 1.362.681 | (104.715) | 830.255 |
| Micro enterprises and entities | 425.470 | (52.383) | 373.087 | 824.283 | 603.823 | 52.617 | 646.164 |
| Agricultural producers | 54.331 | 1.963 | 56.294 | 63.716 | 54.890 | (18.022) | 47.097 |
| Public companies | 41.956 | 45.436 | 87.393 | 30.367 | 39.511 | 23.419 | 101.668 |
| **From other clients** | **646.467** | **(238.947)** | **407.520** | **64.480** | **228.456** | **(125.563)** | **117.980** |
| **Total receivables** | **4.271.634** | **(711.405)** | **3.560.229** | **5.512.579** | **5.258.303** | **(358.973)** | **3.455.532** |
| **By category of receivables** | | | | | | | |
| Non-problematic receivables | 1.598.252 | 209.538 | 1.807.790 | 3.768.455 | 3.758.497 | (13.598) | 1.804.149 |
| of which : restructured | 26.501 | 7.307 | 33.808 | 134.210 | 28.128 | (5.058) | 134.831 |
| Problematic receivables | 2.673.382 | (920.943) | 1.752.439 | 1.744.125 | 1.499.806 | (345.375) | 1.651.383 |
| of which : restructured | 1.194.383 | (879.729) | 314.655 | 412.009 | 205.915 | (153.304) | 367.444 |
| **Total receivables** | **4.271.634** | **(711.405)** | **3.560.229** | **5.512.579** | **5.258.303** | **(358.973)** | **3.455.532** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Information on changes of impaired receivables in 2017:**

RSD in thousand

| | Accumulated allowance for impairment at the beginning of year | Allowances for impairment recognized during the period | Reversal of impairment during the period | Other changes | Accumulated allowance for impairment at the end of year |
|---|---|---|---|---|---|
| **Receivables from retail** | **2.303.204** | **3.051.833** | **2.798.175** | **(910.743)** | **1.646.119** |
| Housing 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 |
| Transactional and Credit Card | 76.620 | 124.069 | 137.966 | (33.705) | 29.018 |
| Other receivables | 328.564 | 154.851 | 151.643 | (148.544) | 183.228 |
| **Receivables from corporate clients** | **3.295.405** | **3.132.679** | **3.303.221** | **(1.145.815)** | **1.979.048** |
| Large entities | 217.751 | 382.834 | 426.751 | 248.760 | 422.593 |
| Small and medium-sized entities | 2.015.423 | 1.914.794 | 2.009.308 | (886.211) | 1.034.698 |
| Micro enterprises and entities | 683.687 | 685.628 | 557.402 | (386.444) | 425.470 |
| Agricultural producers | 61.397 | 57.514 | 33.845 | (30.734) | 54.331 |
| Public companies | 317.147 | 91.909 | 275.915 | (91.185) | 41.956 |
| **From other clients** | **1.196.382** | **775.659** | **939.264** | **(386.309)** | **646.467** |
| **Total receivables** | **6.794.991** | **6.960.171** | **7.040.661** | **(2.442.867)** | **4.271.634** |
| **By category of receivables** | | | | | |
| Non-problematic receivables | 1.745.971 | 4.455.869 | 4.760.395 | 156.807 | 1.598.252 |
| of which: restructured | 19.739 | 45.891 | 57.620 | 18.491 | 26.501 |
| Problematic receivables | 5.049.021 | 2.504.302 | 2.280.266 | (2.599.675) | 2.673.382 |
| of which: restructured | 1.513.782 | 541.282 | 349.570 | (511.111) | 1.194.383 |
| **Total receivables** | **6.794.991** | **6.960.171** | **7.040.661** | **(2.442.867)** | **4.271.634** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Information on the calculated interest income and the interest collected as at 31 December 2018**

RSD in thousand

| | Income from Interest | Collected interest | Interest income on impaired receivables | Collected interest on impaired receivables |
|---|---|---|---|---|
| **Receivables from retail** | **3.487.438** | **3.425.001** | **116.093** | **73.105** |
| Housing loans | 1.046.191 | 1.023.106 | 35.777 | 18.490 |
| Consumer and Cash Loans | 2.252.674 | 2.216.150 | 70.104 | 48.827 |
| Transactional and Credit Card | 121.438 | 121.327 | 3.269 | 2.313 |
| Other receivables | 67.136 | 64.418 | 6.943 | 3.475 |
| **Receivables from corporate clients** | **2.853.338** | **2.276.950** | **293.267** | **41.914** |
| Large entities | 479.866 | 312.768 | 141.358 | 13.734 |
| Small and medium-sized entities | 1.484.373 | 1.299.208 | 127.823 | 23.097 |
| Micro enterprises and entities | 724.725 | 542.131 | 21.716 | 4.521 |
| Agricultural producers | 19.493 | 15.843 | 2.287 | 562 |
| Public companies | 144.881 | 107.000 | 83 | - |
| From other clients | **1.876.962** | **1.688.517** | **139.555** | **858** |
| **Total receivables** | **8.217.738** | **7.390.468** | **548.915** | **115.877** |
| **By category of receivables** | | | | |
| Non-problematic receivables | 7.660.649 | 7.265.413 | - | - |
| of which: restructured | 16.750 | 14.801 | - | - |
| Problematic receivables | 557.089 | 125.055 | 548.915 | 115.877 |
| of which: restructured | 43.574 | 32.777 | 36.472 | 25.170 |
| **Total receivables** | **8.217.738** | **7.390.468** | **548.915** | **115.877** |

Interest income from loans is recognized in accordance with IFRS 9, which represents the rate that discounts the estimated future payments or receipts through the expected life of the placements, or, where appropriate, in a shorter period of time, to the net book value of financial assets or financial liabilities.

When determining the effective interest rate, all contractual terms relating to that financial instrument, but not future credit losses, shall be taken into account.

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).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Information on the calculated interest income and the interest collected as at 31 December 2017**

RSD in thousand

| | Interest income | Collected interest | Interest income on impaired receivables | Collected interest on impaired receivables |
|---|---|---|---|---|
| **Receivables from retail** | **3.027.019** | **2.764.069** | **289.789** | **51.275** |
| Housing loans | 790.550 | 727.825 | 68.687 | 10.499 |
| Consumer and Cash Loans | 1.968.255 | 1.802.786 | 178.355 | 33.373 |
| Transactional and Credit Card | 148.193 | 129.360 | 20.878 | 2.350 |
| Other receivables | 120.021 | 104.099 | 21.869 | 5.053 |
| **Receivables from corporate clients** | **2.499.980** | **2.175.225** | **163.157** | **11.329** |
| Large entities | 357.747 | 342.473 | 14.225 | - |
| Small and medium-sized entities | 1.450.123 | 1.348.123 | 85.942 | 7.465 |
| Micro enterprises and entities | 546.890 | 346.068 | 51.096 | 2.694 |
| Agricultural producers | 30.341 | 19.949 | 11.799 | 1.170 |
| Public companies | 114.879 | 118.611 | 95 | - |
| From other clients | **1.847.155** | **1.783.817** | **44.314** | **1.038** |
| **Total receivables** | **7.374.155** | **6.723.111** | **497.260** | **63.641** |
| **By category of receivables** | | | | |
| Non-problematic receivables | 6.867.207 | 6.649.033 | 2.250 | - |
| of which: restructured | 16.830 | 14.788 | 478 | - |
| Problematic receivables | 506.948 | 74.079 | 495.010 | 63.641 |
| of which: restructured | 104.465 | 20.459 | 93.496 | 11.079 |
| **Total receivables** | **7.374.155** | **6.723.111** | **497.260** | **63.641** |

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

***Required reserves for estimated losses***

The Group additionally, in accordance with the Decision of the National Bank of Serbia on the Classification of Balance Sheet Assets and Off-balance sheet items calculates reserves for estimated losses that may occur on balance sheet assets and off-balance sheet items and determines the amount of required reserves for potential losses, which is the sum of the positive difference between the reserve for estimated losses calculated and the determined amount of impairment of balance sheet assets and provisions for losses on off-balance sheet items at the level of the debtor.

The required reserve for estimated losses on balance sheet assets and off-balance sheet items, is presented as a deduction on the Group'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 and 114/2017).
In accordance with the stated above, the Group does not classify required reserves for estimated losses as a deductible items of the capital. With the Decision on Amending the Decision on the Classification of Balance Sheet and Off-Balance Sheet Items of the Bank ("Official Gazette of the Republic of Serbia" No. 103/2018) and the Decision on Amendments to the Decision on Capital Adequacy ("Official Gazette of the Republic of Serbia" No. 103/2018), effective from 1 January 2019, the entire concept of calculating the reserve for estimated losses, as well as the treatment of the necessary reserves for estimated losses as deductible items from the basic share capital were completely abolished.

***Restructured loans***

Where possible, the Group seeks to restructure loans rather than realize collaterals. This may involve extending the payment or any other modification of the initial conditions of lending. Reprogramming can be a business restructuring or forbearance by definition of EBA.

Business reprogramming includes changes to the initial contractual terms, which are not conditioned by the worsening financial position of the debtor, or the mitigation of the deteriorating financial position and does not constitute restructuring. It is the result of a changed situation on the market (customers, suppliers, competitors) and the need for the existing dynamics and conditions of the loan to be adjusted to the new situation.

Forbearance presents a restructuring caused by:

- the debtors' inability to meet their contractual obligations due to financial difficulties and
- the Groups need to make certain compromises so the client could service his contractual obligations.

Performing forbearance - is the starting category within the forbearance principle and is granted in case of a defined deterioration in the financial position of the client, or his creditworthiness, registered delay over 30 days in the last 3 months before applying for reprogramming or other non-compliance with contractual terms towards the Group. The minimum validity period of this status is 2 years, during which the client must pay a min 6,7% of the total debt yearly (also include for Corporate) and at the end of the period must not have a delay of over 30 days (during this period of delay shall not exceed 90 days).

Performing forbearance under probation - the subcategories within the Performing Forbearance status in which the client moves from Non performing forbearance or Defaulted forbearance status after the expiry of the monitoring period, in which conditions must be met cumulatively: the maximum delay during the monitoring period, no days of delay at the end of the monitoring period and recorded positive financial developments which indicates that the ability of the borrower to regularly meet contractual obligations in the future. Performing Forbearance under probation lasts for a maximum of 2 years, and upon expiry, if all conditions are fulfilled, the client leaves the Forbearance status.

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Restructured loans (continued)**

Non performing forbearance status is granted in the following cases:

- the client does not carry out the final restructuring after a period of 18 m from giving the status of "temporary measures";
- the occurrence of any events of default which are not related to restructuring during the performing forbearance status;
- delays over 30 days with a client who is Performing Forbearance under probation status;
- If a client under Performing Forbearance under probation status, is granted a new reprogramming in the second year of the status

Monitoring period for clients with NPF status lasts for one year after which, in case of fulfilment of the defined conditions, it moves into the Performing forbearance under probation status.

Distress reprogramming / restructuring (defaulted forbearance) is a form of restructuring in which the client receives the status of default. This way, the entire scope of exposure (or its biggest part) and is always conditioned by a significant deterioration in the creditworthiness of the client. Distress reprogramming is granted every time a client has rating of R at the time of approval of reprogramming, when the client is not employed (only for individuals), and when the client is approved with a second reprogramming, and it's been less than 2 years from the initial authorization of rescheduling.

Temporary measures - temporary measures do not imply the final restructuring but a middle step to the final implementation of the restructuring. It usually occurs in situations when there is a larger number of lenders with a specific client and a longer period of time is required due to internal processes and procedures of each creditor, in order to define the final model of the restructuring (example – in situations resorting in stand-still agreements or moratorium as a transitional solution to the final restructuring). The duration of interim measures is limited to 18 months.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

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

**Information on restructured receivables as at 31 December 2018:**

RSD in thousand

| | The gross value of total receivables | Accumulated allowance for impairment of total receivables | The gross value of restructured receivables | | Accumulated allowance for impairment restructured receivables | % of restructured receivables | Value of the collaterals of restructured receivables |
|---|---|---|---|---|---|---|---|
| | | | Total | of which: problematic receivables | | | |
| **Receivables from retail clients** | **64.125.435** | **1.627.750** | **813.432** | **499.895** | **255.885** | **1,27** | **243.998** |
| Housing loans | 35.519.704 | 708.416 | 419.107 | 275.681 | 123.422 | 1,18 | 240.473 |
| Consumer and Cash Loans | 25.762.098 | 784.474 | 387.735 | 220.280 | 130.566 | 1,51 | 3.525 |
| Transactional and Credit Card | 725.107 | 15.765 | - | - | - | - | - |
| Other receivables | 2.118.526 | 119.095 | 6.589 | 3.934 | 1.897 | 0,31 | - |
| **Receivables from corporate clients** | **76.656.046** | **1.518.084** | **694.730** | **184.035** | **242.520** | **0,91** | **145.097** |
| Sector A | 6.010.305 | 94.362 | 58.976 | 35.639 | 30.818 | 0,98 | 58.976 |
| Sector B, C, E | 16.388.959 | 464.187 | 551.525 | 72.262 | 150.750 | 3,37 | 70.340 |
| Sector D | 8.644.393 | 145.921 | - | - | - | - | - |
| Sector F | 13.577.949 | 121.893 | 11.260 | 11.260 | 1.287 | 0,08 | 11.260 |
| Sector G | 13.693.369 | 409.739 | 60.583 | 60.354 | 59.328 | 0,44 | - |
| Sector H, I, J | 9.344.879 | 115.533 | - | - | - | 0,00 | - |
| Sector L, M, N | 8.996.192 | 166.449 | 12.386 | 4.521 | 337 | 0,14 | 4.521 |
| **Receivables from other clients** | **10.513.411** | **309.698** | **8.541** | **4.591** | **3.871** | **0,08** | **-** |
| **Total receivables** | **151.294.891** | **3.455.532** | **1.516.702** | **688.521** | **502.275** | **1,00** | **389.095** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

The Group 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.

**Information on restructured receivables as at 31 December 2017:**

RSD in thousand

| | The gross value of total receivables | Accumulated allowance for impairment of total receivables | The gross value of restructured receivables | | Accumulated allowance for impairment restructured receivables | % of restructured receivables | Value of the collaterals of restructured receivables |
|---|---|---|---|---|---|---|---|
| | | | Total | of which: problematic receivables | | | |
| **Receivables from retail clients** | **47.806.734** | **1.646.119** | **742.951** | **463.530** | **189.385** | **1,55** | **284.190** |
| Housing loans | 25.359.422 | 661.519 | 442.664 | 260.854 | 114.017 | 1,75 | 283.080 |
| Consumer and Cash Loans | 19.445.288 | 772.354 | 280.277 | 189.359 | 67.433 | 1,44 | 1.109 |
| Transactional and Credit Card | 797.249 | 29.018 | - | - | - | 0,00 | - |
| Other receivables | 2.204.776 | 183.228 | 20.010 | 13.317 | 7.934 | 0,91 | - |
| **Receivables from corporate clients*** | **57.283.690** | **1.823.185** | **1.042.041** | **1.018.873** | **755.991** | **1,82** | **699.352** |
| Sector A | 2.429.555 | 103.212 | 70.411 | 47.243 | 41.244 | 2,90 | - |
| Sector B, C, E | 14.470.866 | 667.157 | 621.159 | 621.159 | 451.343 | 4,29 | 551.080 |
| Sector D | 5.674.910 | 79.971 | - | - | - | 0,00 | - |
| Sector F | 10.677.961 | 189.842 | 119.208 | 119.208 | 113.046 | 1,12 | 25.697 |
| Sector G | 11.479.578 | 524.837 | 224.072 | 224.072 | 148.919 | 1,95 | 115.384 |
| Sector H, I, J | 5.700.486 | 94.997 | - | - | - | 0,00 | - |
| Sector L, M, N | 6.850.334 | 163.169 | 7.191 | 7.191 | 1.440 | 0,10 | 7.191 |
| **Receivables from other clients** | **11.852.909** | **802.331** | **320.813** | **315.188** | **275.508** | **2,71** | **278.381** |
| **Total receivables** | **116.943.334** | **4.271.635** | **2.105.804** | **1.797.591** | **1.220.884** | **1,80** | **1.261.923** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued**

**35.2 Credit Risk (continued)**

**Information on changes in restructured receivables in 2018:**

**RSD in thousand**

| | Gross amount at beginning of the period | Receivables restructured during the period | Receivables which ceased to be considered as restructured during the period | Other changes | Gross amount at period end | Net amount at period end |
|---|---|---|---|---|---|---|
| **Receivables from retail clients** | **742.951** | **395.125** | **203.457** | **(121.187)** | **813.431** | **557.547** |
| Housing loans | 442.664 | 142.234 | 122.419 | (43.925) | 419.107 | 295.685 |
| Consumer and Cash Loans | 280.277 | 251.516 | 71.865 | (71.640) | 387.735 | 257.169 |
| Other receivables | 20.010 | 1.375 | 9.173 | (5.622) | 6.589 | 4.692 |
| **Receivables from corporate clients** | **1.067.513** | **499.208** | **600.945** | **(262.506)** | **703.271** | **456.880** |
| Large entities | 416.085 | - | 416.085 | - | - | - |
| Small and medium-sized entities | 454.198 | 13.812 | 162.634 | (176.408) | 128.967 | 28.938 |
| Micro enterprises and entities | 188.832 | 480.343 | 17.293 | (85.269) | 566.613 | 424.051 |
| Agricultural producers | 8.398 | 5.053 | 4.932 | (828) | 7.690 | 3.891 |
| Public companies | - | - | - | - | - | - |
| **Receivables from other clients** | **295.341** | **-** | **295.341** | **-** | **-** | **-** |
| **Total receivables** | **2.105.805** | **894.333** | **1.099.743** | **(383.693)** | **1.516.702** | **1.014.427** |

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Information on changes in restructured receivables in 2017:**

RSD in thousand

| | Gross amount at beginning of the period | Receivables restructured during the period | Receivables which ceased to be considered as restructured during the period | Other changes | Gross amount at period end | Net amount at period end |
|---|---|---|---|---|---|---|
| **Receivables from retail clients** | **733.777** | **273.968** | **154.729** | **(110.065)** | **742.951** | **553.567** |
| Housing 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 entities | - | - | - | 416.085 | 416.085 | 101.115 |
| Small and medium-sized entities | 1.180.141 | 10.281 | 330.165 | (406.059) | 454.198 | 86.318 |
| Micro enterprises and entities | 237.845 | 45.484 | 35.183 | (59.314) | 188.832 | 104.648 |
| Agricultural producers | 13.711 | - | - | (5.313) | 8.398 | 4.246 |
| Public companies | 161.225 | - | 161.225 | - | - | - |
| **Receivables from 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** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Information on the structure of restructured receivables by restructuring measures in 2018:**

RSD in thousand

| | Capitalization of delay | Grace period | Extension of the repayment period | Change of interest rate | A partial write-off | Other measures | Total |
|---|---|---|---|---|---|---|---|
| **Receivables from retail** | **555.768** | **16.405** | **609.978** | **745.356** | **74.342** | **706** | **813.432** |
| Housing loans | 313.874 | 13.624 | 217.478 | 353.850 | 72.669 | - | 419.107 |
| Consumer and Cash Loans | 237.743 | 2.782 | 385.912 | 384.917 | 1.673 | 706 | 387.735 |
| Other receivables | 4.152 | - | 6.589 | 6.589 | - | - | 6.589 |
| **Receivables from corporate clients** | **637.157** | **563.700** | **677.661** | **136.983** | **15.774** | **2.058** | **703.271** |
| Small and medium-sized entities | 66.301 | 74.113 | 128.967 | 71.312 | 15.774 | - | 128.967 |
| Micro enterprises and entities | 565.533 | 489.097 | 543.046 | 58.471 | - | - | 566.613 |
| Agricultural producers | 5.323 | 490 | 5.647 | 7.200 | - | 2.058 | 7.690 |
| **Receivables from other clients** | **-** | **-** | **-** | **-** | **-** | **-** | - |
| **Total Receivables** | **1.192.925** | **580.105** | **1.287.639** | **882.339** | **90.115** | **2.764** | **1.516.702** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.2 Credit Risk (continued)**

**Information on the structure of restructured receivables by restructuring measures in 2017:**

RSD in thousand

| | Capitalization of delay | Grace period | Extension of the repayment period | Change of interest rate | A partial write-off | Other measures | Total |
|---|---|---|---|---|---|---|---|
| **Receivables from retail** | **531.655** | **8.856** | **515.304** | **615.951** | **62.831** | **-** | **742.951** |
| Housing loans | 315.783 | 8.530 | 216.435 | 322.131 | 62.108 | - | 442.664 |
| Consumer and Cash Loans | 211.479 | 326 | 278.919 | 275.414 | 724 | - | 280.277 |
| Other receivables | 4.393 | - | 19.950 | 18.406 | - | - | 20.010 |
| **Receivables from corporate clients** | **937.564** | **701.744** | **1.039.413** | **827.857** | **125.884** | **2.279** | **1.067.513** |
| Small and medium-sized entities | 416.085 | 416.085 | 416.085 | 416.085 | - | - | 416.085 |
| Micro enterprises and entities | 351.433 | 239.760 | 454.198 | 276.418 | 98.700 | - | 454.198 |
| Agricultural producers | 161.648 | 42.553 | 165.664 | 130.301 | 27.184 | - | 188.832 |
| Public companies | 8.398 | 3.345 | 3.466 | 5.053 | - | 2.279 | 8.398 |
| **Receivables from 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.

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Loan Concentration Risk**

The concentration risk is the risk of incurring losses due to an excessive volume of Group's placements into a certain group of debtors or individual debtor. The concentration occurs when a significant number of debtors belong to the similar industry or the same geographical area or when they have similar economic characteristics, they are exposed to the same factors that affect the income and expenditures, which may affect their ability to settle their contractual obligations in case of changes in economic, political or some other circumstances that affect them equally. In order to minimize the credit risk, safety measures are established through defining levels of exposures and credit limits and regular monitoring of compliance with the established limits. Also, on a regular annual basis the Group carries out a detailed and comprehensive analysis of concentrations of credit (and other) risks across different dimensions (exposure classes, economic sectors, collateral, products, etc.).

The Group manages the concentration risk of the credit portfolio through the framework set by the Concentration risk management policy (with belonging Procedure), regulatory limits are defined by the Decision on Risk Management of the Bank, internally defined limits and limits defined by the Policy for determining exposure limits (with belonging Procedure).

Using the Concentration risk management policy the Group has defined monitoring exposures to credit risk by each of the following categories: concentrations by classes of exposure (Basel exposure classes), concentration by clients rating, concentration by corporate clients, real estate and micro clients, by industry sector, concentration by exposures to individual clients in the overall loan portfolio, the portfolio of corporate clients, banks and states, concentration of collaterals, concentration by currency and by product. For the purposes of determining the concentration of credit risk the Herfindahl-Hirschman Index (HHI) and Moody's matrix are being used.

According to the Decision on the management of risks, the Group analyses exposure to credit risk through the following two indicators:

- Exposure to a single entity or group of related entities that cannot be higher than 25% of the Group's capital,
- The sum of large exposures, which cannot be higher than 400% of the Group capital.

In addition, for monitoring purposes the Group has retained as an internal limit an indicator that was previously defined by regulations, and by which exposure to related entities of the Group cannot be higher than 20% of the Group capital.

By the Policy for managing credit risks, the Group has defined monitoring concentrations of credit risk for corporate customers, financial institutions and states at the following levels: maximum limit of exposure, maximum exposure limit based on rating and operating maximum limit of exposure.

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## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Information on sectoral and the geographical concentration of exposure as at 31 December 2018:**

RSD in thousand

| | Belgrade region | | Region of Vojvodina | | Region: Sumadija and West Serbia | | Region: South and East Serbia | | Region Kosovo and Metohija | | Foreign countries | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Non-problematic receivables** | **Problematic receivables** | **Non-problematic receivable** | **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 customers** | **25.056.522** | **392.841** | **24.429.738** | **639.934** | **7.822.263** | **309.810** | **4.732.607** | **126.879** | **607.413** | **1.595** | **5.812** | **21** |
| Housing loans | 17.477.059 | 181.397 | 12.525.772 | 337.304 | 3.163.098 | 152.208 | 1.544.658 | 59.358 | 73.100 | - | 5.752 | - |
| Consumer and Cash Loans | 6.699.115 | 168.470 | 10.681.938 | 261.830 | 4.271.747 | 123.773 | 2.989.795 | 57.489 | 506.444 | 1.495 | - | - |
| Transactional and Credit Card | 138.638 | 2.657 | 419.509 | 6.666 | 100.812 | 2.661 | 48.333 | 1.187 | 4.601 | 41 | - | - |
| Other receivables | 741.710 | 40.317 | 802.519 | 34.133 | 286.606 | 31.167 | 149.820 | 8.845 | 23.268 | 60 | 60 | 21 |
| **Receivables from corporate clients*** | **36.842.654** | **151.955** | **26.938.521** | **309.931** | **7.285.484** | **315.672** | **4.784.708** | **24.851** | **2.269** | **-** | **-** | **-** |
| Sector A | 508.668 | 1.350 | 5.217.815 | 39.820 | 175.430 | 2 | 56.592 | 10.629 | - | - | - | - |
| Sector B, C and E | 3.350.292 | 28.485 | 6.731.416 | 59.057 | 3.030.183 | 232.702 | 2.955.494 | 1.330 | - | - | - | - |
| Sector D | 5.704.542 | - | 244.235 | - | 2.046.669 | - | 648.947 | - | - | - | - | - |
| Sector F | 8.714.226 | 11.138 | 4.283.686 | 5.785 | 415.354 | 5.297 | 136.151 | 6.313 | - | - | - | - |
| Sector G | 5.555.903 | 97.427 | 6.021.970 | 199.369 | 1.066.586 | 59.447 | 685.394 | 5.003 | 2.269 | - | - | - |
| Sector H, I and J | 6.527.501 | 11.422 | 2.181.681 | 1.378 | 451.436 | 18.224 | 152.034 | 1.204 | - | - | - | - |
| Sector L, M and N | 6.481.522 | 2.134 | 2.257.718 | 4.524 | 99.825 | - | 150.096 | 373 | - | - | - | - |
| **Receivables from other clients** | 5.527.936 | 95.914 | 3.248.141 | 59.839 | 490.296 | 33.819 | 232.019 | 3.613 | - | - | 821.834 | - |
| **Total exposure** | **67.427.113** | **640.711** | **54.616.399** | **1.009.704** | **15.598.043** | **659.300** | **9.749.333** | **155.344** | **609.683** | **1.595** | **827.645** | **21** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Information on sectoral and the geographical concentration of exposure as at 31 December 2017:**

RSD in thousand

| | Belgrade region | | Region of Vojvodina | | Region: Sumadije and West Serbia | | Region: South and East Serbia | | Region: Kosovo and Metohija | | Foreign country | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 customers** | **17.505.175** | **438.753** | **18.860.440** | **685.439** | **6.223.002** | **318.020** | **3.174.294** | **140.334** | **453.989** | **1.401** | **6.106** | **24** |
| Housing 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 | - |
| Consumer 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 | - | - |
| Transactional and Credit Cards | 145.052 | 5.080 | 467.842 | 9.677 | 108.698 | 3.331 | 51.401 | 2.101 | 4.066 | - | - | - |
| Other receivables | 670.622 | 56.581 | 871.049 | 56.922 | 323.208 | 40.509 | 153.643 | 14.473 | 17.682 | 11 | 52 | 24 |
| **Receivables from corporate clients*** | **26.860.748** | **681.734** | **17.974.425** | **479.604** | **6.880.845** | **161.912** | **4.055.342** | **188.248** | **830** | **-** | **-** | **-** |
| Sector A | 526.878 | 1.161 | 1.756.728 | 52.878 | 21.682 | 2 | 50.359 | 19.867 | - | - | - | - |
| Sector B, C, E | 2.292.745 | 424.206 | 5.975.966 | 157.419 | 3.024.870 | 40.230 | 2.505.718 | 49.711 | - | - | - | - |
| Sector D | 2.697.882 | - | 273.440 | - | 2.034.904 | - | 668.683 | - | - | - | - | - |
| Sector F | 7.382.984 | 3.317 | 2.723.837 | 8.237 | 272.512 | 3 | 175.461 | 111.611 | - | - | - | - |
| Sector G | 5.438.922 | 162.507 | 4.124.531 | 212.564 | 894.261 | 112.354 | 527.883 | 5.728 | 830 | - | - | - |
| Sector H, I, J | 3.190.404 | 4.706 | 1.832.058 | 3.116 | 551.931 | 9.323 | 107.932 | 1.016 | - | - | - | - |
| Sector L, M, N | 5.330.933 | 85.837 | 1.287.864 | 45.390 | 80.687 | - | 19.307 | 315 | - | - | - | - |
| **Receivables from other clients** | 5.251.408 | 185.058 | 3.755.518 | 376.143 | 418.168 | 185.555 | 407.710 | 29.950 | - | - | 1.243.156 | - |
| **Total exposure** | **49.617.332** | **1.305.545** | **40.590.382** | **1.541.187** | **13.522.015** | **665.487** | **7.637.346** | **358.532** | **454.819** | **1.401** | **1.249.263** | **24** |

## 35. RISK MANAGEMENT (continued)

### 35.2 Credit Risk (continued)

**Credit-related Risks**

Credit risk includes residual risk, dilution risk, settlement / delivery risk, counterparty risk and foreign exchange credit risk. The Group overcomes risks which are related to credit risk using the same control processes and procedures which are used for credit risk.

**Counterparty risk**

The Group operates with derivative financial instruments which gives way to the exposure to counterparty risk, i.e. the risk of default of the counterparty in the transaction before the final settlement of cash flows arising from the transaction.

Credit risk of derivatives is limited by determining the maximum limit for each derivative financial instrument, based on its type, maturity and credit quality of the client.

### 35.3. Liquidity Risk and Funding Management

Liquidity risk is defined by the Decision of the National Bank on liquidity risk management ("Official Gazette of the Republic of Serbia", No. 103/2016).

Liquidity risk is the risk that the Group 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 with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows in Dinars and foreign currency and the availability of high grade collateral which could be used to secure additional funding, if required. The Group 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 Group in accordance with agreed terms.

Liquidity risk management in the Group is defined by policies, procedures and regulations approved by the Managing Committee and Executive Committee and 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. The audit of policies, procedures and regulations are carried out in when needed, but at least once a year.

Liquidity risk management process is organized through the Asset and Liability Management Committee, Market Risk Management Department and Asset and Liability Management Department.

The Assets and Liability Committee and the Operating Liquidity Committee (OLC Committee) are responsible for monitoring liquidity risk, managing the liquidity risk and for recommending to the Executive Board the measures and activities to maintain the liquidity, adjustment of the maturity structure, financing plan for reserves and other measures important for the financial stability of the Group. The department for asset and liability management and department for market risk management and liquidity risk management monitors the liquidity ratio (LIK) on daily basis so that the daily liquidity ratio is within the limits prescribed by the Business plan in case of extraordinary circumstances (liquidity crisis) ("PFNS"). Apart from this, PFNS defines other indicators and their limits as well as personnel/department in charge of their monitoring and reporting. The trend of these indicators is presented semi-weekly on OLC meetings, or more often in case of overriding the PFNS limits or change in liquidity status.

The Group maintains a portfolio comprised of liquid securities and diversified assets that can be easily modified in cash in case of non-predictable and negative oscillations in cash flow of the Group. The Group maintains the required level of local and foreign currency reserves, in accordance with the demands of National Bank of Serbia.

The level of liquidity is expressed using the liquidity ratio which is determined as the proportion of the sum of the liquid assets of the first (cash, gold and other noble metals, assets on accounts with other banks with available credit rating which corresponds to the level of credit quality 3 or better determined in accordance with the decision on capital adequacy (investment grade); deposits with the National Bank of Serbia, receivables in the process of realization, irrevocable lines of credit granted to the Group, stock and quoted debt securities, 90% of the fair value of securities denominated in dinars, without a currency clause, issued by the Republic of Serbia and with a minimum maturity of three months or 90 days, and classified as securities held for trading or securities available for sale) and second level (other receivables due within a month) and the sum of liabilities on demand without determined maturity date (40% Bank's demand deposits, 20% on demand deposits from other depositors, 10% savings deposits, 5% guarantees and other forms of guarantees and 20% undrawn irrevocable credit lines) and liabilities with fixed maturity up to a month.

## 35. RISK MANAGEMENT (continued)

### 35.3. Liquidity Risk and Funding Management (continued)

In addition to the broader liquidity indicator, the Group also monitors the narrow liquidity indicator.

The narrow liquidity indicator represents the ratio of liquid receivables of the Group of the first order, on the one hand and the sum of on demand liabilities of the bank or without a contracted maturity and liabilities of the Group with a fixed maturity within the next month following the date of the calculation, on the other hand.

During 2018 and 2017 the Group had daily liquidity ratios above the legally prescribed level.

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| Average during period | 1,46 | 1,51 |
| Highest | 1,84 | 1,97 |
| Lowest | 1,18 | 1,24 |
| On day | 1,36 | 1,61 |
| Narrower liquidity ratio during 2018 and 2017 | | |
| Average during period | **31.12.2018.** | **31.12.2017.** |
| Highest | | |
| Lowest | 1,36 | 1,37 |
| On day | 1,77 | 1,75 |
| Average during period | 1,09 | 1,13 |
| Highest | 1,28 | 1,52 |

As of 30 June 2017, on the basis of the Decision on the Group'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 Group is obliged to keep indicator of liquid assets coverage, 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 Group 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 31 December 2018 and on 31 December 2017 Bank had PPLA ratio above prescribed limit.

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| **Indicator of liquid assets coverage** | 175,08% | 156,85% |

In addition to calculating regulatory and internal indicators, the Group conducts a regular stress test for liquidity risk. Survival Period Analysis is done on a weekly basis. Three types of crisis (name crisis, market crisis and combined crisis) have been defined with two degrees of seriousness (mild and serious). Each of the crises has an assumed duration.

The worst scenario to be followed assumes a very limited access to the interbank market and the capital market, and at the same time large outflows from client deposits. In addition, the simulation assumes greater use of guarantees and credit lines. At the beginning of 2018, a new methodology for the analysis of the period of survival was adopted. The Group has defined internal limits for SPAs. The methodology used for the Survival Period Analysis (SPA) in EBS is based on the Approach of the Hazardous Zone. The hazardous zone model is used as a model of risk financing in system stress tests. The assumption is that liquidity risk is a secondary risk, which can easily be expanded and increase any crisis arising from other risk categories. Approach of the Hazardous Zone implies that while the crisis develops and becomes more serious, there are critical points where each financial market is closed and is no longer available to the subject.

The Group, in accordance with the requirements of the parent bank, and based on EU regulations, monitors and reports the indicator of the NSFR (Net Stable Funding ratio). The indicator is defined as the relationship between elements that provide stable financing and elements that require stable funding, and serves to monitor structural liquidity risks, with a focus on long-term financing for the purpose of limitation of the use of short-term financing and financing incompatibility. The Group has defined the internal limits for the NSFR indicator.

## 35. RISK MANAGEMENT (continued)

### 35.3. Liquidity Risk and Funding Management (continued)

***Maturity Analysis of Financial Liabilities***

The table below presents the ageing analysis of the Group's financial liabilities as at 31 December 2018 and 31 December 2017 based on of contractual, not discounted payments.

The Group expects that most customers will not withdraw deposits on the due date set in the contract.

**Analysis of financial liabilities by maturity**

RSD thousand

| | From 0-1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total 2018 |
|---|---|---|---|---|---|---|
| Borrowings, deposits and securities | 24.995.249 | 19.780.510 | 43.697.271 | 62.909.431 ` | 29.803.446 | 181.185.907 |
| Subordinated liabilities | - | 154.260 | 337.745 | 1.189.948 | 4.123.778 | 5.805.731 |
| **Total** | **24.995.249** | **19.934.770** | **44.035.016** | **64.099.379** | **33.927.224** | **186.991.638** |

RSD thousand

| | From 0-1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total 2017 |
|---|---|---|---|---|---|---|
| Borrowings, deposits and securities | 20.795.323 | 20.329.138 | 44.798.747 | 49.884.593 | 11.989.544 | 147.797.345 |
| Subordinated liabilities | - | 96.978 | 286.911 | 1.076.577 | - | 1.460.466 |
| **Total** | **20.795.323** | **20.426.116** | **45.085.658** | **50.961.171** | **11.989.544** | **149.257.811** |

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## 35. RISK MANAGEMENT (continued)

### 35.3. Liquidity Risk and Funding Management (continued)

***Maturity Analysis of Financial Liabilities*** **(continued)**

The table below presents the ageing analysis of guarantees, letters of credit and other irrevocable commitments:

RSD thousand

| | Up to 14 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total 2018 |
|---|---|---|---|---|---|---|---|
| Contingent liabilities | 652.361 | 372.586 | 1.956.337 | 5.386.834 | 6.323.218 | 412.768 | 15.104.104 |
| Irrevocable commitments and letters of credit | 20.355.235 | 59.408 | 556.434 | 3.032.060 | 7.266.143 | 5.777.865 | 37.047.145 |
| **Total** | **21.007.596** | **431.994** | **2.512.771** | **8.418.894** | **13.589.361** | **6.190.633** | **52.151.249** |

RSD thousand

| | Up to 14 days | From 15 days to 1 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** |

## 35. RISK MANAGEMENT (continued)

### 35.3. Liquidity Risk and Funding Management (continued)

***Maturity Analysis of Financial Liabilities* (continued)**

The Group 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 Group has signed four contracts with the EIB for the financing of small and medium-sized enterprises, as well as small and medium-size infrastructure projects implemented by municipalities, in 2010, 2012, 2015 and 2018 in the total amount of 175 million euros.

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 20 million.

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.

In mid-December 2018, the Group signed a new contract with the German Development Bank, KfW, to finance renewable energy sources for small and medium-sized enterprises in the total amount of 10 million euros.

On 3 December 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.

In June 2018, the Group signed a new contract with Erste Group AG for the purpose of financing loans to legal entities in the total amount of EUR 65 million.

At the end of June 2018, the Group signed an agreement with the EBRD for the financing of energy efficiency projects in the housing sector. The total amount of the contract is 600 million dinars.

In July 2017, the Group signed a contract with the National Bank of Serbia as the state agent for the use of funds from the Apex Loan for Small and Medium Enterprises and other priorities III / B.

The balance of loans received from foreign credit institutions during the year 2018 amounts to 41.184.587 thousand dinars (2017: 29.698.233 thousand dinars) (note 27).

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## 35. RISK MANAGEMENT (continued)

### 35.3. Liquidity Risk and Financial Assets Management (continued)

***Maturity Analysis of Financial Liabilities (continued)***

***Liquidity Gap Analysis – Financial Assets and Liabilities***

RSD thousand

| | Up to 14 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total 2018 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and assets with the central bank | 24.641.257 | - | - | - | - | - | 24.641.257 |
| Derivate receivables | 10.160 | - | - | 4.843 | 35.510 | 130.691 | 181.204 |
| Securities | 297.860 | 354.642 | 1.747.479 | 2.930.145 | 26.760.171 | 3.063.597 | 35.153.894 |
| Loans and receivables form banks and other financial institutions | 1.214.203 | - | - | 234.812 | 43.857 | | 1.492.872 |
| Loans and receivables from customers | 1.640.484 | 626.968 | 2.123.533 | 15.682.429 | 40.144.763 | 86.128.310 | 146.346.487 |
| Other financial assets | 178.037 | 1.140 | 2.512 | 10.534 | 5.936 | 2.933 | 201.092 |
| **Total assets** | **27.982.001** | **982.750** | **3.873.524** | **18.862.763** | **66.990.237** | **89.325.531** | **208.016.806** |
| **LIABILITIES AND EQUITY** | | | | | | | |
| Derivate liabilities | 766 | - | - | 2.106 | 20.797 | 71.849 | 95.518 |
| Deposits and other liabilities to banks and other financial organisations and central bank | 4.790.755 | 404.416 | 7.246.349 | 7.138.975 | 32.266.345 | 15.306.547 | 67.153.386 |
| Deposits and other liabilities to other customers | 81.785.458 | 5.898.527 | 6.006.074 | 13.865.993 | 2.949.678 | 2.704.484 | 113.210.214 |
| Subordinated liabilities | 7.402 | - | - | - | 1.013.097 | 3.545.838 | 4.566.337 |
| Other financial liabilities | 70.696 | - | 10.251 | 46.849 | 107.795 | - | 235.591 |
| **Total Liabilities** | **86.655.077** | **6.302.943** | **13.262.674** | **21.053.923** | **36.357.712** | **21.628.718** | **185.261.046** |
| **Total equity** | **-** | **-** | **-** | **-** | **-** | 23.943.897 | **23.849.897** |
| Total liabilities and equity | **86.655.077** | **6.302.943** | **13.262.674** | **21.053.923** | **36.357.712** | **45.478.615** | **209.110.944** |
| **Maturity mismatch as at: 31 December 2018** | **(58.673.076)** | **(5.320.193)** | **(9.389.150)** | **(2.191.160)** | **30.632.525** | **43.846.916** | |
| **31 December 2017** | **(45.208.853)** | **(3.556.265)** | **(6.397.000)** | **(3.348.939)** | **30.628.911** | **30.596.004** | |

## 35. RISK MANAGEMENT (continued)

### 35.3. Liquidity Risk and Financial Assets Management (continued)

***Maturity Analysis of Financial Liabilities (continued)***

***Liquidity Gap Analysis – Financial Assets and Liabilities (continued)***

The previous table presents an analysis of the maturities of assets and liabilities of the Group based on the contractual terms of payment. The contractual maturities of assets and liabilities are determined on the basis of the remaining period on the balance sheet date in relation to the agreed maturity. The table does not include potential obligations and assumed irrevocable liabilities shown in the previous table. The maturity structure of assets and liabilities as at 31 December 2018 is based on contracted discounted amounts.

Manual mismatch is the result of a growth in the volume of demand deposits in relation to the planned funds up to 14 days. The Group monitors maturity compliance using statistical models for scheduling demand deposits in the expected maturity.

## 35. RISK MANAGEMENT (continued)

### 35.4. 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 Group's financial result and equity.

The Group'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 Group 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 Group 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 thousand** | **31 December 2018** | **31 December 2017** |
|---|---:|---:|
| *Interest risk* | 17.931 | 25.126 |
| *Foreign currency risk* | 9.540 | 9.090 |
| **Total** | **18.355** | **25.987** |

The VaR calculation is carried out in a technical solution implemented at the Erste Group level.

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.

## 35. RISK MANAGEMENT (continued)

### 35.4. Market Risks (continued)

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 Group'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.

#### 35.4.1 Interest Rate Risk

Interest risk is the risk of an adverse impact on the Group's financial result and capital due to changes in market interest rates. The Group 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 Group considers RSD and EUR to be materially significant currencies.

In determining interest rates the Group considers market interest rates and their movements to which the Group'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.

The Assets and Liabilities Management Committee manages the assets and liabilities maturity based on: Group Guidelines, Macroeconomic Analysis and Forecasting, Forecasting Liquidity Conditions, Analysis and Forecasting Market Rates Trends for Different Segments of Assets and Liabilities.

The Group has set up a set of indicators and limits of sensitivity for monitoring and managing the exposure to interest rate risk in the banking book.

Basis point 01 (BP01) - change in the value of balance positions due to changes in interest rates for one base point (exposure is monitored on the total and the level of individual currencies, for defined time limits).

Economic Value of Equity (EVE) - a shock of +/- 200 basis points for each individual currency and summing up the worst scenarios. For discounting a risk free curve is used.

Market Value of Equity (MVoE) - a shock of +/- 200 basis points for each individual currency and summing up the worst scenarios. For discounting a risk free curve is used for margins.

EVE and MVoE ratios are calculated as a relationship of sensitivity and capital.

CR01 - change in value of portfolio of securities in the banking book due to a change in the credit rating of 1 base point.

In order to identify the interest rate risk and to calculate indices, all positions are grouped into predefined time bases based on the remaining maturity or subsequent interest rate determination. Balance sheet positions that have no agreed maturity (mostly demand deposits) are modeled by statistical methodology.

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## 35. RISK MANAGEMENT (continued)

### 35.4. Market Risk (continued)

### 35.4.1 *Interest Rate Risk* (continued)

The following table shows the Group's exposure to risk from changes of interest rates (Repricing Gap) on 31 December 2018. Assets and liabilities and currency swaps from off-balance sheet items are presented after the date of re-pricing of interest or maturity date, depending on which date is earlier.

**RSD in thousand**

| 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 | - | - | - | - | - | 3.476.461 | 3.476.461 |
| Obligatory reserve | 4.730.803 | - | - | - | - | 11.670.903 | 16.401.706 |
| Securities | 10.029.729 | 1.548.675 | - | 581.341 | 22.657.251 | - | 34.816.996 |
| Loans to banks | 5.703.695 | - | - | - | - | - | 5.703.695 |
| Loans to customers | 74.581.452 | 35.383.271 | 12.393.993 | 3.351.919 | 20.711.655 | - | 146.422.291 |
| Other assets | - | - | - | - | - | 4.073.570 | 4.073.570 |
| **Total balance sheet assets** | **95.045.679** | **36.931.945** | **12.393.993** | **3.933.260** | **43.368.907** | **19.220.934** | **210.894.719** |
| *FX Swaps* | 3.446.701 | - | - | - | - | - | 3.446.701 |
| **Total assets** | **98.492.380** | **36.931.945** | **12.393.993** | **3.933.260** | **43.368.907** | **19.220.934** | **214.341.420** |
| Liabilities to financial institutions | 3.826.024 | 17.282.472 | 33.693.773 | 1.599.180 | 8.896.336 | - | 65.297.785 |
| AVISTA deposits | 6.166.699 | 12.333.399 | 18.500.098 | 8.221.458 | 31.117.184 | - | 76.338.839 |
| Term deposits | 11.421.065 | 7.049.944 | 6.706.379 | 10.746.361 | 6.048.302 | - | 41.972.051 |
| Other liabilities | - | - | - | - | - | 3.654.244 | 3.654.244 |
| **Equity** | - | - | - | - | - | 23.631.801 | 23.631.801 |
| **Total balance sheet liabilities** | **21.413.789** | **36.665.814** | **58.900.250** | **20.566.999** | **46.061.823** | **27.286.044** | **210.894.719** |
| *FX Swaps* | 3.437.353 | - | - | - | - | - | 3.437.353 |
| **Total liabilities and equity** | **24.851.142** | **36.665.814** | **58.900.250** | **20.566.999** | **46.061.823** | **27.286.044** | **214.332.072** |
| **Net interest risk exposure as at 31 December 2018** | **73.641.238** | **266.131** | **(46.506.257)** | **(16.633.738)** | **(2.692.916)** | **(8.065.110)** | **9.348** |
| **Net interest risk exposure as at 31 December 2017** | **82.039.645** | **(23.200.912)** | **(32.777.839)** | **(15.071.371)** | **(3.940.535)** | **(7.061.845)** | **(12.858)** |

## 35. RISK MANAGEMENT (continued)

### 35.4. Market Risk (continued)

### 35.4.1 *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 to the Group’s income and expenses.

The following table presents the Group´s income statement’s sensitivity to the reasonably possible changes of interest rates (1%) with other variables held constant. The income statement’s sensitivity represents the effect of predicted changes in interest rates on net interest income in one year on financial assets and liabilities based on interest rates as at 31 December 2018 and 31 December 2017.

**RSD in thousand**

| Currency | Change in percentage | Income statement sensitivity 2018 | Change in percentage | Income statement sensitivity 2017 |
|---|---|---|---|---|
| *Increase of percentage:* | | | | |
| RSD | 1% | 170.598 | 1% | 161.123 |
| EUR | 1% | 134.422 | 1% | 341.201 |
| *Decrease of percentage:* | | | | |
| RSD | 1% | (174.829) | 1% | (164.677) |
| EUR | 1% | (461.982) | 1% | (409.916) |

## 35. RISK MANAGEMENT (continued)

### 35.4. Market Risk (continued)

#### 35.4.2. *Foreign Exchange Risk*

Foreign currency risk is the risk of change of the value of financial instruments and occurrence of adverse effect to the Group's financial result and equity due to the fluctuations in foreign exchange rates. The banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

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

For the purposes of protection against the foreign currency risk, the Group 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 currency risk and contracts the foreign currency clause with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign currency risk, as well as risk by specific currencies. The Risk control unit daily monitors movements in indicators of foreign exchange risk. The positions are monitored on a daily basis to ensure positions are maintained within established limits.

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

In 2018, the Group 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 Group's foreign currency exposure indicator was not more than 20% higher than the Group's capital.

The following table shows the currencies in which the Group has significant exposure on 31 December 2018 and 31 December 2017 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.

**Foreign Exchange Risk (continued)**

**RSD thousand**

| Currency | Changes in the exchange rate (depreciation in %) 2018 | Effect to the income statement before taxation 2018 | Changes in the exchange rate (depreciation u %) 2017 | Effect to the income statement before taxation 2017 |
|---|---|---|---|---|
| EUR | 2% | 11.714 | 2% | 22.508 |
| CHF | 2% | (127) | 2% | 30 |
| USD | 2% | 307 | 2% | 285 |

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## 35. RISK MANAGEMENT (continued)

### 35.4. Market Risk (continued)

#### 35.4.2. *Foreign Exchange Risk*

The following table presents the Group's exposure to foreign exchange risk as at 31 December 2018. The table includes assets and liabilities at their carrying amounts.

**RSD thousand**

| | EUR | USD | CHF | Other currencies | Total in foreign currencies | Total in RSD | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and cash funds held at Central Bank | 12.534.380 | 58.106 | 86.694 | 71.393 | **12.750.573** | 11.890.684 | **24.641.257** |
| Derivate receivables | 171.044 | - | - | - | **171.044** | 10.160 | **181.204** |
| Securities | 11.874.442 | 223.291 | - | - | **12.097.733** | 23.056.161 | **35.153.894** |
| Loans and receivables due from banks and other financial institutions | 547.777 | 50.647 | 13.214 | 182.808 | **794.446** | 698.426 | **1.492.872** |
| Loans and receivables due from customers | 113.000.770 | 403.556 | 800.534 | - | **114.204.860** | 32.141.627 | **146.346.487** |
| Investments in subsidiaries | - | - | - | - | - | 118 | **118** |
| Intangible assets | - | - | - | - | - | 554.374 | **554.374** |
| Property, plant and equipment | - | - | - | - | - | 1.072.688 | **1.072.688** |
| Current tax assets | - | - | - | - | - | 173.326 | **173.326** |
| Deferred tax assets | - | - | - | - | - | 20.553 | **20.553** |
| Fixed assets held for sale and assets of discontinued operations | - | - | - | - | - | 12.288 | **12.288** |
| Other assets | 86.541 | 11.844 | 2.610 | - | **100.995** | 1.144.663 | **1.245.658** |
| **Total assets** | **138.214.954** | **747.444** | **903.052** | **254.201** | **140.119.651** | **70.775.068** | **210.894.719** |
| | | | | | | | |
| **LIABILITIES AND EQUITY** | | | | | | | |
| Derivate liabilities | 94.752 | - | - | - | **94.752** | 766 | **95.518** |
| Deposits and liabilities due to banks and other financial institutions and NBS | 61.215.557 | 8.012 | 687.576 | 8.984 | **61.920.129** | 5.233.258 | **67.153.387** |
| Deposits and liabilities due to customers | 67.436.592 | 2.614.981 | 1.479.724 | 456.006 | **71.987.303** | 41.222.911 | **113.210.214** |
| Subordinated liabilities | 4.566.337 | - | - | - | **4.566.337** | - | **4.566.337** |
| Provisions | 7.155 | - | | | **-** | 670.039 | **677.194** |
| Current tax liabilities | - | - | - | - | **-** | 252.560 | **252.560** |
| Deferred tax liabilities | | | | | | 4.038 | **4.038** |
| Other liabilities | 86.698 | 52.699 | 1.452 | - | **140.849** | 944.725 | **1.085.574** |
| **Total liabilities** | **133.407.091** | **2.675.692** | **2.168.752** | **464.990** | **138.716.525** | **48.328.297** | **187.044.822** |
| **Total equity** | - | - | - | - | - | 23.849.897 | **23.849.897** |
| **Total liabilities and equity** | **133.407.091** | **2.675.692** | **2.168.752** | **464.990** | **138.716.525** | **72.178.194** | **210.894.719** |
| **Net foreign currency position as at:** | | | | | | | |
| **31 December 2018** | **4.807.863** | **(1.928.248)** | **(1.265.700)** | **(210.789)** | **1.403.126** | | |
| **31 December 2017** | **4.382.789** | **(1.175.651)** | **(861.410)** | **(138.101)** | **2.207.627** | | |

## 35. RISK MANAGEMENT (continued)

### 35.5. Group’s Risk Concentration

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

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 Group's exposure to a customer or a group of related customers relative to the Group's capital.

During 2018, the Group maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Group 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 29) and with the internal limits.

In accordance with the Risk management policies, the Group’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 Group.

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

### 35.6. Group's Investment Risks

The Group’s investment risks include the Group’s equity investments held in other entities and investments made in fixed assets.

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

The Group’s investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organizational unit or the Group’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 2018, the Group 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.

### 35.7. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Group is exposed to and includes adverse effects which may influence the financial result and capital of the Group, as the Group 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 Group 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 Group monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings.

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

## 35. RISK MANAGEMENT (continued)

### 35.8. Operational Risk

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

The Group 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 Group.

Committee for Operational Risk Management of the Group, 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 Group. Operational risk events are collected in a single database and further analysed and monitored.

The Group continually carries out training of all employees in the area of operational risk by raising awareness of employees about the risk, improving quantitative and qualitative tools for identifying and measuring risk exposure (such as self-assessment, key indicators of operational risk, scenario analysis, etc.), and it establishes and promotes the adequate preventive and corrective measures in order to reduce the exposure to operational risk to an acceptable level.

The Group has defined and regularly reviewed and updated internal acts which regulate the management area the Group's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

The Group, through the Program of insurance from operational risks insured against classical risk and specific banking risks. Classical risks include damage to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Group's internal and external fraud, technological risks and civil liability.

The Group performs continuous estimation of the risks arising in the process of introducing new products / services, projects and risk assessment resulting from entrusting third parties. Improvement of internal control mechanisms is a necessary element in all activities of operational risk management.

The Group calculates capital requirements under Pillar 1 for operational risk using the basic indicator approach while under Pillar 2 it applies advanced approach by using an internal model.

### 35.9. Capital Management

The Group 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 Group manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Group's operations. The Group's management monitors regularly the Group's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on 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, 119/2017 & 76/2018) and the Decision on capital adequacy ("Official Gazette of the RS", no. 103/2016).

## 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

Regulatory prescribed minimum capital adequacy ratios, including the protection classes of equity as at 31 December 2018, were as follows:

- indicator of the adequacy of the basic share capital 10,24% (4,5% regulatory minimum, increased by 2,5% of the protective layer for the preservation of capital, 1% of the protective layer of capital for a systemically important bank and 2,24% of the protective layer of capital for the structural systemic risk)
- indicator of the capital adequacy ratio 11,74 %% and
- an indicator of capital adequacy of 13,74%.

In addition to the requirements defined in the form of minimum indicators of capital adequacy and protective capital layers, the Group is also required to fulfill the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP), which the National Bank of Serbia for 2018 has defined in the form of guidelines, while in the future it will be defined in the form of a minimum requirement for capital.

The aforementioned Decision of the National Bank of Serbia on the adequacy of the Group'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 Group 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 Group 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 Group conducts a process of internal capital adequacy assessment process (ICAAP), determine available internal capital and makes a distribution, and develop a strategy and plan for capital management in accordance with the risk management of the Group.

The Framework for Integrated Risk and Capital Management as a concept established in the Group, as its key component, has the Internal Capital Adequacy Assessment Process (ICAAP). This framework is defined to support the Group's management in the risk management process to which the bank is exposed, as well as in its internal capital, in order to achieve the Group's satisfactory level of capital in accordance with its risk profile.

The framework for integrated risk and capital management is a comprehensive system that is necessary to meet regulator's expectations, but also to provide effective internal management instruments. It consists of the following:

- Risk Appetite Statement (RAS), limits and risk management strategies;
- Comprehensive risk exposure analysis including an assessment of the material significance of risk, analysis and risk management of concentration and stress testing;
- Determining Risk-bearing Capacity Calculation (RCC);
- Planning key risk indicators;
- Planning of recovery and restructuring.

In accordance with the Banking Law and the Decision on recovery plans for banks and banking groups ("Official Gazette of RS", no. 71/2015), the Group has prepared and submitted to the National Bank of Serbia Recovery Plan, which is the main pillar for strengthening the financial resistance of the Group and achieving stability in situations of serious financial distress. . In addition, the Group, for the purpose of preparing the Plan for Restructuring and defining Minimum Capital Requirements and similar obligations of the Group, shall submit data to the National Bank of Serbia in accordance with the Decision on the Minimum Capital Requirement and Related Obligations of the Bank ("Official Gazette of the Republic of Serbia" No. 30/2015 and 78/2017) and the Decision on Information and Data submitted to the National Bank of Serbia for the purpose of drafting and updating the plan of restructuring of the bank and banking group ("Official Gazette of the Republic of Serbia" No. 78/2015, 78/2017 and 46/2018).

## 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

The table below summarizes the structure of the Group's capital as at 31 December 2018 and 31 December 2017, as well as the capital adequacy ratio:

| | | **RSD thousand** |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| ***Basic capital*** | | |
| Basic share capital | 10.040.000 | 10.040.000 |
| The amount of the basic share capital paid | 124.475 | 124.475 |
| Related emission premium with basic equity instruments | 1.014.238 | 1.442.454 |
| Profit from the current period that meets the requirements for inclusion in the share capital | 602.586 | 495.357 |
| Revaluation reserves and other unrealized gains | (90.388) | (77.334) |
| Unrealized losses | 10.036.645 | 7.679.825 |
| Other reserves | - | 16.875 |
| Additional value adjustments | (24.616) | (24.072) |
| Other intangible assets before deduction for related deferred tax liabilities | (554.374) | (255.553) |
| | **21.148.566** | **19.442.026** |
| ***Supplementary capital*** | | |
| Subordinated obligations | 3.873.180 | 572.575 |
| | **3.873.180** | **572.575** |
| ***Capital:*** | **25.021.746** | **20.014.601** |
| Risky balance and off-balance assets | | |
| Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery | 10.255.358 | 7.868.795 |
| Capital requirement for price risk | 161.078 | 177.449 |
| Capital requirement for foreign exchange risk | 51.123 | 92.209 |
| Capital requirement for operational risk | 1.199.624 | 1.102.422 |
| Capital requirement for the risk of adjusting credit exposure | 34.384 | 13.102 |
| ***Adequacy of basic share capital*** | **14,46** | **16,81** |
| ***Adequacy of share capital*** | **14,46** | **16,81** |
| ***Capital adequacy*** | **17,11** | **17,30** |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 35. RISK MANAGEMENT (Continued)

### 35.9. Capital Management (continued)

The following table gives an overview of the limits for applying exceptions to deductible items from the basic share capital defined by the Decision on the capital adequacy of the bank:

| | | RSD thousand |
|---|---|---|
| | **31.12.2018.** | **31.12.2017.** |
| **Investments in entities in the financial sector in which the bank does not have significant investments** | | |
| The limit to which investments in entities in the financial sector in which the bank does not have a significant investment are not deducted from the capital (10% of the basic share capital) | 2.114.857 | 1.944.203 |
| Investments in the basic share capital of entities in the financial sector in which the bank does not have a significant investment | (76.475) | (23.307) |
| Investments in additional share capital of entities in the financial sector in which the bank does not have significant investments | - | - |
| Investments in supplementary capital of entities in the financial sector in which the bank does not have significant investments | - | - |
| **Remains up to the limit** | **2.038.382** | **1.920.896** |
| | | |
| **Investments in entities in the financial sector in which the bank has significant investments** | | |
| The limit to which investments in entities in the financial sector in which the bank has significant investments are not deducted from the capital (10% of the basic share capital) | 2.114.857 | 1.944.203 |
| Investments in the basic share capital of entities in the financial sector in which the bank has significant investments | - | - |
| **Remains up to the limit** | **2.114.857** | **1.944.203** |
| | | |
| **Deferred tax assets** | | |
| The limit to which deferred tax assets, that are dependent on future profitability and arise from temporary differences, do not deduct from the capital (10% of the basic share capital) | 2.114.857 | 1.944.203 |
| Deferred tax assets that depend on future profitability and arise from temporary differences | (111.910) | (64.292) |
| **Remains up to the limit** | **2.002.947** | **1.879.911** |
| | | |
| **Combined limit for deferred tax assets and significant investments** | | |
| The limit for deferred tax assets, that are dependent on future profitability and arising from temporary differences and investments in financial sector entities in which the bank has significant investments are not deducted from equity (17,65% of the basic share capital) | 3.729.094 | 3.432.045 |
| Deferred tax assets that depend on future profitability and arise from temporary differences and investments in financial sector entities in which the bank has significantly invested | (111.910) | (64.292) |
| **Remains up to the limit** | **3.617.184** | **3.367.753** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 35. RISK MANAGEMENT (Continued)

### 35.9. Capital Management (continued)

An overview of the Group's exposure to risks and capital requirements is given in the table below:

**RSD thousand**

| | 31.12.2018. | | 31.12.2017. | |
|---|---|---|---|---|
| | **Risk assets** | **Capital requirement** | **Risk assets** | **Capital requirement** |
| **Total risk assets** | 146.276.728 | 11.702.138 | 115.674.715 | 9.253.977 |
| Risk-weighted exposure to credit risk | 128.191.971 | 10.255.358 | 98.359.934 | 7.868.795 |
| Standardized approach | 128.191.971 | 10.255.358 | 98.359.934 | 7.868.795 |
| IRB approach | - | - | - | - |
| Exposure to risk of settlement/delivery (except for free delivery) | - | - | - | - |
| Exposure to market risks | 2.652.507 | 212.201 | 3.370.725 | 269.658 |
| Exposure to operational risk | 14.995.301 | 1.199.624 | 13.780.278 | 1.102.422 |
| Exposure to the risk of adjusting credit exposure | 429.794 | 34.384 | 163.778 | 13.102 |

## 35. RISK MANAGEMENT (Continued)

### 35.9. 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 Group 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 Group dated 31 March the required reserve requirement for the estimated losses is not treated as a deductible item of capital.
With the Decision on Amendment of the Decision on the Classification of Balance Sheet and Off-Balance Sheet Items of the bank ("Official Gazette of the Republic of Serbia" No. 103/2018) and the Decision on Amendments to the Decision on Capital Adequacy ("Official Gazette of the Republic of Serbia" No. 103/2018) effective from the 1 January 2019, the entire concept of calculating the reserve for estimated losses, as well as the treatment of the necessary reserves for estimated losses as deductions from the basic share capital is completely abolished.

**Leverage indicator**

The leverage indicator of the Group, which represents the ratio of the share capital, which is obtained as the sum of the basic share capital and additional basic capital in accordance with the decision regulating the capital adequacy of the bank, and the amount of exposure for the calculation of the leverage indicator, amounted to 9,12% as at 31 December 2018.

**35. RISK MANAGEMENT (continued)**

**35.9. Capital Management (continued)**

**35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS**

In accordance with the Decision on Disclosure of Data and Information by banks, detailed information on the Group's capital is given in the following enclosures:

- PI-KAP form (APPENDIX 1) - detailed structure of regulatory capital of the Group as at 31 December 2018;
- PI-FIKAP form (APPENDIX 2) - basic characteristics of regulatory capital elements;
- PI-UPK form (APPENDIX 3) - Balance sheet of the Group compiled in accordance with IAS / IFRS standards and disaggregated positions that can be linked through the references to the equity positions of the Capital report made in accordance with the Decision regulating the reporting on the capital adequacy of the bank (ANNEX 1).
- PI-AKB form (APPENDIX 4) - overview of calculated capital requirements as at 31 December 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.9. Capital Management (continued)**

**35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)**

Appendix 1 – The form PI- KAP

Data on the Group's capital position

**RSD thousand**

| No | Item | Amount | DCA reference* |
|---|---|---|---|
| | **Common Equity Tier 1: elements** | | |
| 1 | CET1 capital instruments and the related share premium accounts | 10.164.475 | |
| *1.1.* | *of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA* | 10.040.000 | Section 7, paragraph 1, item 1) and Section 8 |
| *1.2.* | *Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the bank's assembly* | 124.475 | Section 7, paragraph 1, item 2) |
| 2 | Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the bank's assembly | 143.621 | Section 10, paragraph 1. |
| 3 | Profit of the current year or profit from the preceding year which the bank's assembly still has not decided to allocate in CET 1 capital which fulfil the requirements as laid out in Section 10, paras 2 and 3 on inclusion into CET 1 capita | 870.617 | Section 10, paras 2 and 3 |
| 4 | Revaluation reserves and other unrealised losses | 512.198 | Section 7, paragraph 1, item 4) |
| 5 | Reserves from profit and other bank reserves, except for reserves for general banking risks | 10.036.645 | Section 7, paragraph 1, item 5) |
| 6 | Reserves for general banking risks | - | Section 7, paragraph 1, paragraph 6) |
| 7 | Non-controlling participations (minority interests) allowed in CET1** | - | |
| 8 | Common Equity Tier 1 capital before regulatory adjustments and deductibles (sum of rows from 1 to 7) | 21.727.555 | |

**35. RISK MANAGEMENT (continued)**

**35.9. Capital Management (continued)**

**35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)**

Appendix 1 – The form PI- KAP

Data on the Group's capital position

**RSD thousand**

| No | Item | Amount | DCA reference* |
|---|---|---|---|
| | **Common Equity Tier 1 capital: regulatory adjustments and deductibles** | | |
| 9 | Additional value adjustments (-) | (24.616) | Section 12, paragraph 5 |
| 10 | Intangible assets, including goodwill (net of deferred tax liabilities) (-) | (554.374) | Section 13, paragraph 1, item 2) |
| 11 | Deferred tax assets that rely on future profitability of the bank, excluding those arising from temporary differences (net of related deferred tax liability where the conditions referred to in Section 14, paragraph 1 of the DCA are met) | - | Section 13, paragraph 1, item 3) |
| 12 | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows | - | Section 12, paragraph 1, item 1) |
| 13 | IRB Approach: Negative amount of difference resulting from the calculation in accordance with Section 134 of the DCA (-) | - | Section 13, paragraph 1, item 4) |
| 14 | Any increase in equity that results from securitisation exposures(-) | - | Section 11 |
| 15 | Gains or losses on bank's liabilities valued at fair value resulting from changes in own credit standing | - | Section 12, paragraph 1, item 2) |
| 16 | Defined benefit pension fund assets on the balance sheet of the bank(-) | - | Section 13, paragraph 1, item 5) |
| 17 | Direct, indirect and synthetic holdings by a bank of own Common Equity Tier 1 instruments, including own CET 1 instruments that a bank is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation (-) | - | Section 13, paragraph 1, item 6) |
| 18 | Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the bank, designed to inflate artificially the capital of the bank (-) | - | Section 13, paragraph 1, item 7) |
| 19 | Applicable amount of direct, indirect and synthetic holdings by the bank of the CET1 instruments of financial sector entities where the bank does not have a significant investment in those entities (-) | - | Section 13, paragraph 1, item 8) |
| 20 | Applicable amount of direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities (-) | - | Section 13, paragraph 1, item 9) |
| 21 | Exposure amount of the following items which qualify for a risk weight of 1,250%, where the bank deducts that exposure amount from the amount of CET1 items as an alternative to applying a risk weight of 1,250% | - | Section 13, paragraph 1, item 11) |
| *21.1.* | *of which: holdings in entities outside the financial sector in the amount of over 10% of capital of those entities, i.e. holdings that allow exerting a significant impact on managing of a legal entity or on the business policy of that legal entity (-)* | - | Section 13, paragraph 1, item 11), indent one |
| *21.2.* | *of which: securitisation positions (-)* | - | Section 13, paragraph 1, item 11), indent two |
| *21.3.* | *of which: free deliveries (-)* | - | Section 13, paragraph 1, item 11), indent three |
| *22* | *Deferred tax assets that rely on the bank's future profitability arising from temporary differences (amount above 10% of bank's CET1 capital referred to in Section 21, paragraph 2, reduced by the amount of related tax liabilities where the requirements referred to in Section 14, paragraph 1 of the DCA are met (-)* | - | Section 21, paragraph 1, item 1) |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

### 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

### 35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

**RSD thousand**

| No | Item | Amount | DCA reference* |
|---|---|---|---|
| 23 | Sum of deferred tax assets and holdings of financial sector entities where the bank has a significant investment referred to in Section 21, paragraph 1 of the DCA in such entities, which exceeds the threshold referred to in Section 21, paragraph 3 of the DCA (-) | - | Section 21, paragraph 1 |
| *23.1.* | *of which: Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities* | - | Section 21, paragraph 1, item 2) |
| *23.2.* | *of which: Deferred tax assets arising from temporary differences* | - | Section 21, paragraph 1, item 1) |
| 24 | Losses for the current and previous years, and unrealised losses (-) | - | Section 13, paragraph 1, item 1) |
| 25 | Any tax charge relating to CET1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of CET1 elements insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (-) | - | Section 13, paragraph 1, item 12) |
| 26 | Amount of items required to be deducted from the bank's Additional Tier 1 items that exceeds Additional Tier 1 capital of the bank (-) | - | Section 13, paragraph 1, item 10) |
| 27 | Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the bank | - | Section 13, paragraph 1, item 13) |
| 28 | Total regulatory adjustments and deductibles from CET1 capital (sum of rows from 9 to 27) | (578.989) | |
| 29 | Common Equity Tier 1 capital (difference between 8 and 28) | 21.148.566 | |
| | **Additional Tier 1 capital: elements** | | |
| 30 | Shares and other capital instruments which fulfil the requirements as laid out in Section 23 of the DCA and related share premium | - | Section 22, paragraph 1, items 1) and 2) |
| 31 | Capital instruments issued by subsidiaries, which are recognised as Additional Tier 1 capital** | - | |
| 32 | Additional Tier 1 capital before deductibles (30+31) | - | |
| | **Additional Tier 1 capital: deductibles** | | |
| 33 | Direct, indirect and synthetic holdings by a bank of own Additional Tier 1 instruments, including the instruments that a bank is obliged to purchase as a result of existing contractual obligations (-) | - | Section 26, paragraph 1, item 1) |
| 34 | Direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities with which the bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-) | - | Section 26, paragraph 1, item 2) |
| 35 | Applicable amount of direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank does not have a significant investment in those entities (-) | - | Section 26, paragraph 1, item 3) |
| 36 | Direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for five working days or fewer (-) | - | Section 26, paragraph 1, item 4) |
| 37 | Amount of items required to be deducted from Tier 2 items that exceed the Tier 2 capital of the bank (-) | - | Section 26, paragraph 1, item 5) |
| 38 | Total deductibles from Additional Tier 1 capital (sum of rows from 33 to 37) | - | |
| 39 | Additional Tier 1 capital (difference between 32 and 38) | | |
| 40 | Tier 1 capital (sum of rows 29 and 39) | | |

## 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

### 35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

**(in thousand RSD)**

| No | Item | Amount | DCA reference |
|---|---|---|---|
| | **Tier 2: elements** | | |
| 41 | Shares and other Tier 2 capital instruments and subordinated liabilities which fulfil the requirements as laid out in Section 28 of the DCA and related share premium accounts related to instruments | 3.873.180 | Section 27, paragraph 1, items 1) and 2) |
| 42 | Capital instruments issued by subsidiaries, which are recognised as Tier 2 capital** | - | |
| 43 | Credit risk adjustments that meet the requirements for the inclusion in Tier 2 capital | - | Section 27, paragraph 1, items 3) and 4) |
| 44 | Tier 2 capital before deductibles (sum of rows from 41 to 43) | 3.873.180 | |
| | **Tier 2 capital: deductibles** | | |
| 45 | Direct, indirect and synthetic holdings by a bank of own Tier 2 instruments and subordinated liabilities, including instruments that the bank is obliged to purchase as a result of existing contractual obligations (-) | - | Section 30, paragraph 1, item 1) |
| 46 | Direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities with which the bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-) | - | Section 30, paragraph 1, item 2) |
| 47 | Applicable amount of direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities where a bank does not have a significant investment in those entities (-) | - | Section 30, paragraph 1, item 3) |
| 48 | Direct, indirect and synthetic holdings by the bank of the Tier 2 instruments and subordinated liabilities of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for fewer than five working days (-) | - | Section 30, paragraph 1, item 4) |
| 49 | Total deductibles from Tier 2 capital (sum of rows from 45 to 48) | - | |
| 50 | Tier 2 capital (difference between 44 and 49) | 3.873.180 | |
| 51 | Total capital (sum of rows 40 and 50) | 25.021.746 | |
| 52 | Total risk-weighted assets | 146.276.728 | Section 3, paragraph 2 |
| | **Capital adequacy ratios and capital buffers** | | |
| 53 | Common Equity Tier 1 capital ratio (%) | 14,46 | Section 3, paragraph 1, item 1) |
| 54 | Tier 1 capital ratio (%) | 14,46 | Section 3, paragraph 1, item 2) |
| 55 | Total capital ratio (%) | 17,11 | Section 3, paragraph 1, item 3) |
| 56 | Total requirements for capital buffers (%)*** | 5,85 | Section 433 |
| 57 | Common Equity Tier 1 capital available for capital buffers coverage (%)**** | 6,46 | |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

### 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

### 35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 2 – The form PI-FIKAP

Data on the basic characteristics of financial instruments that are included in the calculation of the Group's capital

| No | Instrument features | The share capital of the Bank | The subordinated loan granted by Erste Group Bank AG, Vienna | Minority interest in a subsidiary S-Leasing |
|---|---|---|---|---|
| **1.** | Issuer | Erste Bank ad Novi Sad | Erste Group Bank Ceps Holding GmbH, Vienna | Erste Group Bank Ceps Holding GmbH, Vienna |
| **1.1.** | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | ISIN: RSNOVBE23514, CFI ESVUFR | | |
| | *Regulatory treatment* | | | |
| **2.** | Treatment in accordance with the Decision on Capital Adequacy of Banks | *Core capital instrument* | *Supplementary capital instrument* | *Core capital instrument* |
| **3.** | Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated | *Individual and group* | *Individual and group* | *Group* |
| **4.** | Instrument type | *Ordinary shares* | *Subordinated debt issued in the form of financial instrument* | *Minority participations* |
| **5.** | Amount recognised in regulatory capital (in RSD thousand, as of most recent reporting date) | Amount of 10.164.474 thousand RSD is recognized for the purposes of calculating regulatory capital (nominal value plus share premium in the amount of 124.474 thousand RSD). | Amount of 327.342 thousand RSD recognised as supplementary capital which fulfill requirements in accordance with Decision on Capital Adequacy. | Amount of 3.545.838 thousand RSD recongized as supplementary capital which fulfill requirements in accordance with Decision on Capital Adequacy |
| **6.** | Nominal amount of instrument | 10.040.000 thousand RSD | EUR 15.000.000 | EUR 30.000.000 |
| **6.1.** | Issue price | *RSD counter value of EUR 218.92* | | - |
| **6.2.** | Redemption price | | | - |
| **7.** | Accounting classification | *Share capital* | *Liability – depreciated amount* | *Minority participations* |
| **8.** | Original date of issuance | *1st* issue: 4.012.090 thousand RSD 23/11/2004 2nd issue: 1.369.980 thousand RSD 15/06/2006 3rd issue: 1.735.310 thousand RSD 28/12/2006 4th issue: 2.922.620 thousand RSD 19/12/2007 | *27/12/2011* | 10/09/2018 |
| **9.** | Perpetual or dated | ***No maturity date*** | *With maturity date* | *With maturity date* |
| **9.1.** | *Original maturity date* | ***No maturity date*** | *27/12/2021* | *27/12/2021* |
| **10.** | Issuer call subject to prior supervisory approval | ***No*** | *No* | *No* |
| **10.1.** | Optional call date, contingent call dates and redemption amount | | - | *With maturity date* |
| **10.2.** | Subsequent call dates, if applicable | | - | - |
| | **Coupons / dividends** | | | |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.9. Capital Management (continued)**

**35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)**

Appendix 2 – The form PI-FIKAP

Data on the basic characteristics of financial instruments that are included in the calculation of the Group's capital.

| No | Instrument features | The share capital of the Bank | The subordinated loan granted by Erste Group Bank AG, Vienna | Minority interest in a subsidiary S-Leasing |
|---|---|---|---|---|
| **11.** | Fixed or floating dividend/coupon | Variable | Variable | **Variable** |
| **12.** | Coupon rate and any related index | | Referring to interest on subordinated loan | |
| **13.** | Existence of a dividend stopper | | | |
| **14.1.** | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Full discretion | No discretion | **Full discretion** |
| **14.2.** | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Full discretion | No discretion | **Full discretion** |
| **15.** | Existence of step up or other incentive to redeem | No | No | **No** |
| **16.** | Noncumulative or cumulative dividend/coupon | *Non-cumulative* | *Non-cumulative* | ***Non-cumulative*** |
| **17.** | Convertible or non-convertible | *Non-convertible* | *Non-convertible* | ***Non-convertible*** |
| **18.** | If convertible, conversion trigger(s) | | | |
| **19.** | If convertible, fully or partially | | | |
| **20.** | If convertible, conversion rate | | | |
| **21.** | If convertible, mandatory or optional conversion | | | |
| **22.** | If convertible, specify instrument type convertible into | | | |
| **23.** | If convertible, specify issuer of instrument it converts into | | | |
| **24.** | Write-down features | *No* | *No* | *No* |
| **25.** | If write-down, write-down trigger(s) | | | |
| **26.** | If write-down, full or partial | | | |
| **27.** | If write-down, permanent or temporary | | | |
| **28.** | If temporary write-down, description of write-up mechanism | | | |
| **29.** | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated debt issued in the form of financial instrument | Other | Other |
| **29.** | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Minority participations | Other | Other |
| **30.** | Non-compliant transitioned features | *No* | *No* | *No* |
| **31.** | If yes, specify non-compliant features | | | |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.9. Capital Management (continued)**

**35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)**

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Group with references to the positions of regulatory capital (Appendix 1)

**RSD thousand**

| Designation of item | Item | Consolidated balance sheet as disclosed in financial reports | Consolidated balance sheet under regulatory method and scope of consolidation |
|---|---|---|---|
| **A** | **ASSETS** | | |
| A.I | Cash and assets with the central bank | 24.641.257 | 24.641.257 |
| A.II | Pledged financial assets | 0 | 0 |
| A.III | Financial assets recognised at fair value through income statement and held for trading | 181.204 | 181.204 |
| A.IV | Financial assets initially recognised at fair value through income statement | 35.153.894 | 35.153.894 |
| A.V | Financial assets available for sale | 1.492.872 | 1.492.872 |
| A.VI | Financial assets held to maturity | 146.346.487 | 146.346.487 |
| A.VII | Loans and receivables from banks and other financial organisations | 0 | 0 |
| A.VIII | Loans and receivables from clients | 0 | 0 |
| A.IX | Change in fair value of hedged items | 118 | 118 |
| A.X | Receivables arising from hedging derivatives | 0 | 0 |
| A.XI | Investments in associated companies and joint ventures | 554.374 | 554.374 |
| A.XII | Investments into subsidiaries | 1.072.688 | 1.072.688 |
| A.XIII | Intangible assets | 0 | 0 |
| A.XIV | Property, plant and equipment | 173.326 | 173.326 |
| A.XV | Investment property | 20.553 | 20.553 |
| A.XVI | Current tax assets | 12.288 | 12.288 |
| A.XVII | Deferred tax assets | 1.245.658 | 1.245.658 |
| **A.XX** | **TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)** | **210.894.719** | **210.894.719** |
| **P** | **LIABILITIES** | 0 | 0 |
| **PO** | **LIABILITIES** | 0 | 0 |
| PO.I | Financial liabilities recognised at fair value through income statement and held for trading | 95.518 | 95.518 |
| PO.II | Financial liabilities initially recognised at fair value through income statement | 67.153.387 | 67.153.387 |
| PO.III | Liabilities arising from hedging derivatives | 113.210.214 | 113.210.214 |
| PO.IV | Deposits and other liabilities to banks, other financial organisations and central bank | 0 | 0 |
| PO.V | Deposits and other liabilities to other clients | 0 | 0 |
| PO.VI | Change in fair value of hedged items | 0 | 0 |
| PO.VII | Own securities issued and other borrowings | 4.566.337 | 4.566.337 |
| PO.VIII | Subordinated liabilities | 677.194 | 677.194 |
| PO.IX | Provisions | 0 | 0 |
| PO.X | Liabilities under assets held for sale and discontinued operations | 252.560 | 252.560 |
| PO.XI | Current tax liabilities | 4.038 | 4.038 |
| PO.XII | Deferred tax liabilities | 1.085.574 | 1.085.574 |
| **PO.XIV** | **TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)** | **187.044.822** | **187.044.822** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.9. Capital Management (continued)**

**35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)**

ANNEX 3 - Form PI-UPK

**RSD thousand**

| Designation of item | Item | Consolidated balance sheet as disclosed in financial reports | Consolidated balance sheet under regulatory method and scope of consolidation |
|---|---|---|---|
| | **CAPITAL** | | |
| PO.XV | Share capital | 10.164.475 | 10.164.475 |
| PO.XVI | Own shares | - | - |
| PO.XVII | Profit | 3.057.163 | 3.057.163 |
| PO.XVIII | Loss | - | - |
| PO.XIX | Reserves | 10.550.345 | 10.550.345 |
| PO.XX | Unrealized losses | - | - |
| PO.XXII | **TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) ≥ 0** | 77.914 | 77.914 |
| PO.XXIII | **TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) < 0** | **23.849.897** | **23.849.897** |
| PO.XV | Share capital | - | - |
| PO.XXIV | **TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)** | **210.894.719** | **210.894.719** |
| **В.П.** | **OFF-BALANCE SHEET ITEMS** | | |
| В.П.А. | Off-balance sheet assets | 281.488.083 | 281.488.083 |
| В.П.П. | Off-balance sheet liabilities | 281.488.083 | 281.488.083 |

## 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

### 35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Group with references to the positions of regulatory capital (Appendix 1)

RSD thousand

| Designation of item | Item | Balance sheet | Reference |
|---|---|---|---|
| **A** | **ASSETS** | | |
| A.I | Cash and assets with the central bank | 24.641.257 | |
| A.II | Pledged financial assets | - | |
| A.III | Financial assets recognised at fair value through income statement and held for trading | 181.204 | |
| A.IV | Financial assets initially recognised at fair value through income statement | 35.153.894 | |
| A.V | Financial assets available for sale | 1.492.872 | |
| A.VI | Financial assets held to maturity | 146.346.487 | |
| A.VII | Loans and receivables from banks and other financial organisations | - | |
| A.VIII | Loans and receivables from clients | - | |
| A.IX | Change in fair value of hedged items | 118 | |
| A.X | Receivables arising from hedging derivatives | 0 | |
| A.XI | Investments in associated companies and joint ventures | 554.374 | d |
| A.XII | Investments into subsidiaries | 1.072.688 | |
| A.XIII | Intangible assets | - | |
| A.XIV | Property, plant and equipment | 173.326 | |
| A.XV | Investment property | 20.553 | |
| A.XVI | Current tax assets | 12.288 | |
| A.XVII | Deferred tax assets | 1.245.658 | |
| **A.XX** | **TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)** | **210.894.719** | |
| **P** | **LIABILITIES** | | |
| **PO** | **LIABILITIES** | | |
| PO.I | Financial liabilities recognised at fair value through income statement and held for trading | 95.518 | |
| PO.II | Financial liabilities initially recognised at fair value through income statement | 67.153.387 | |
| PO.III | Liabilities arising from hedging derivatives | 113.210.214 | |
| PO.IV | Deposits and other liabilities to banks, other financial organisations and central bank | - | |
| PO.V | Deposits and other liabilities to other clients | - | |
| PO.VI | Change in fair value of hedged items | - | |
| PO.VII | Own securities issued and other borrowings | 4.566.337 | |
| PO.VIII | Subordinated liabilities | 3.873.180 | đ |
| PO.IX | Provisions | 677.194 | |
| PO.X | Liabilities under assets held for sale and discontinued operations | - | |
| PO.XI | Current tax liabilities | 252.560 | |
| PO.XII | Deferred tax liabilities | 4.038 | |
| PO.I | Financial liabilities recognised at fair value through income statement and held for trading | 1.085.574 | |
| **PO.XIV** | **TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)** | **187.044.822** | |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

### 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

### 35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Group with references to the positions of regulatory capital (Appendix 1)

**RSD thousand**

| Designation of item | Item | Balance Sheet | Reference |
|---|---|---|---|
| | **CAPITAL** | | |
| PO.XV | Share capital | 10.164.475 | |
| | *Of which nominal value of paid shares, except cumulative preference shares* | 10.040.000 | a |
| | *Of which premium emission based on share capital, except cumulative preference share* | 124.475 | b |
| PO.XVI | Own shares | - | |
| PO.XVII | Profit | 3.057.163 | |
| PO.XVIII | Loss | - | |
| PO.XIX | Reserves | 10.550.345 | |
| | *Of which Other reserves* | 10.036.645 | g |
| | *Òf which Revalorization reserves and other unrelized gains* | 602.586 | v |
| | *Of which unrealized losses* | (90.388) | v |
| PO.XX | Unrealized losses | - | |
| PO.XXI | Participation without the right of control | 77.914 | |
| PO.XXII | **TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) ≥ 0** | **23.849.897** | |
| PO.XXIII | **TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) < 0** | - | |
| PO.XXIV | **TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)** | **210.894.719** | |
| **В.П.** | **OFF-BALANCE SHEET ITEMS** | | |
| В.П.А. | Off-balance sheet assets | 281.488.083 | |
| В.П.П. | Off-balance sheet liabilities | 281.488.083 | |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 35. RISK MANAGEMENT (continued)

### 35.9. Capital Management (continued)

### 35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

APPENDIX 4 – The form PI-ABK

Data on capital requirements and capital adequacy of the Group:

**RSD thousand**

| No | Name | Amount |
|---|---|---|
| **I** | **CAPITAL** | **25.021.746** |
| **1.** | **TOTAL COMMON EQUITY TIER 1 CAPITAL** | **21.148.566** |
| **2.** | **TOTAL ADDITIONAL TIER 1 CAPITAL** | **0** |
| **3.** | **TOTAL TIER 2 CAPITAL** | **3.873.180** |
| **II** | **CAPITAL REQUIREMENTS** | **11.701.566** |
| **1.** | **CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES** | **10.255.358** |
| 1.1. | Standardised Approach (SA) | *128.191.971* |
| 1.1.1. | *Exposures to central governments and central banks* | *0* |
| 1.1.2. | *Exposures to territorial autonomies or local government units* | *1.215.821* |
| 1.1.3. | *Exposures to public administrative bodies* | *1.476.976* |
| 1.1.4. | *Exposures to multilateral development banks* | *0* |
| 1.1.5. | *Exposures to international organisations* | *0* |
| 1.1.6. | *Exposures to banks* | *1.507.833* |
| 1.1.7. | *Exposures to companies* | *69.535.652* |
| 1.1.8. | *Retail exposures* | *36.967.523* |
| 1.1.9. | *Exposures secured by mortgages on immovable property* | *15.195.188* |
| 1.1.10. | *Exposures in default* | *744.208* |
| 1.1.11. | *Exposures associated with particularly high risk* | *0* |
| 1.1.12. | *Exposures in the form of covered bonds* | *0* |
| 1.1.13. | *Exposures in the form of securitisation positions* | *0* |
| 1.1.14. | *Exposures to banks and companies with a short-term credit assessment* | *0* |
| 1.1.15. | *Exposures in the form of units in open-ended investment funds* | *0* |
| 1.1.16. | *Equity exposures* | *123.016* |
| 1.1.17. | *Other items* | *1.425.754* |
| 1.2. | *Internal Ratings Based Approach (IRB)* | - |
| 1.2.1. | *Exposures to central governments and central banks* | - |
| 1.2.2. | *Exposures to banks* | - |
| 1.2.3. | *Exposures to companies* | - |
| 1.2.4. | *Retail exposures* | - |
| 1.2.4.1. | *of which: Exposures secured by mortgages on immovable property* | - |
| 1.2.4.2. | *of which: Qualifying revolving retail exposures* | - |
| 1.2.4.3. | *of which: Exposures to small and medium-sized enterprises classified as retail exposures* | - |
| 1.2.5. | *Equity exposures* | - |
| 1.2.5.1. | *Approach applied:* | - |
| 1.2.5.1.1. | *Simple Risk-Weight Approach* | - |
| 1.2.5.1.2. | *PD/LGD Approach* | - |
| 1.2.5.1.3. | *Internal models approach* | - |
| 1.2.5.2. | *Types of equity exposures* | - |
| 1.2.5.2.1. | *Exchange traded equity exposures* | - |
| 1.2.5.2.2. | *Non-exchange traded equity exposures in sufficiently diversified portfolios* | - |
| 1.2.5.2.3. | *Other equity exposures* | - |
| 1.2.5.2.4. | *Equity exposures to which a bank applies the Standardised Approach* | - |
| 1.2.6. | *Exposures in the form of securitisation positions* | - |
| 1.2.7. | *Exposures arising from other assets* | - |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.9. Capital Management (continued)**

**35.9.a DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)**

APPENDIX 4 – The form PI-ABK

Data on capital requirements and capital adequacy of the Group: **RSD thousand**

| No | Name | Amount |
|---|---|---|
| ***2*** | **CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK IN RESPECT OF UNSETTLED TRANSACTIONS** | **-** |
| **3** | **CAPITAL REQUIREMENT FOR MARKET RISKS** | **212.201** |
| 3.1. | Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach | 212.201 |
| 3.1.1. | *Capital requirement for position risk of debt securities* | 161.078 |
| | *of which capital requirement for position risk in respect of securitisation items* | - |
| 3.1.2. | *Capital requirements for position risk arising from equity securities* | - |
| 3.1.3. | *Additional capital requirement for large exposures from the trading book* | - |
| 3.1.4. | *Capital requirement for foreign exchange risk* | 51.123 |
| 3.1.5. | *Capital requirement for commodities risk* | - |
| 3.2. | Capital requirements for position, foreign exchange and commodities risk calculated under the internal models approach | |
| **4** | **CAPITAL REQUIREMENTS FOR OPERATIONAL RISK** | **1.199.624** |
| 4.1. | **Capital requirement for operational risk calculated under the Basic Indicator Approach** | 1.199.624 |
| 4.2. | **Capital requirement for operational risk calculated under the Standardised Approach/Alternative Standardised Approach** | - |
| 4.3. | **Capital requirement for operational risk calculated under the Advanced Approach** | - |
| **5** | **CAPITAL REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK** | **34.384** |
| **III** | **COMMON EQUITY TIER 1 CAPITAL RATIO (%)** | **14,46** |
| **IV** | **TIER 1 CAPITAL RATIO (%)** | **14,46** |
| **V** | **TOTAL CAPITAL RATIO (%)** | **17,11** |

**35. RISK MANAGEMENT (Continued)**

**35.10. Fair value of the 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.

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).

**RSD thousand**

| | **31.12.2018** | **31.12.2017.** |
|---|---|---|
| **CVA** | 12.398 | 3.018 |
| **DVA** | (1.882) | (896) |

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 cannot 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 Level3.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (Continued)**

**35.10. Fair value of the financial assets and liabilities (continued)**

The following table shows fair value of financial instruments designated at fair value in financial statements:

**RSD in thousand**

| | Level 1 | Level 2 | Level 3 | 31.12.2018. Total | Level 1 | Level 2 | Level 3 | 31.12.2017. Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | **4.173.541** | **20.081.753** | **265.138** | **24.520.432** | **9.186.810** | **13.275.013** | **1.566.234** | **24.028.058** |
| **Securities** | **4.173.541** | **19.900.549** | **265.138** | **24.339.228** | **9.186.810** | **13.210.348** | **1.566.234** | **23.963.393** |
| **Debt securities** | | | | | | | | |
| Republic of Serbia Treasury bills | 3.851.416 | 19.840.314 | 236.389 | **23.928.119** | 8.911.878 | 13.148.923 | 1.538.477 | **23.599.279** |
| Government bonds of Republic of Montenegro | 254.864 | **-** | **-** | **254.864** | 260.892 | - | - | **260.892** |
| EBRD bonds | **-** | 60.235 | - | **60.235** | - | 60.378 | - | **60.378** |
| **Equity securities** | | | | | | | | |
| Quoted shares | 67.261 | | **1.596** | **68.857** | 14.040 | 1.047 | - | **15.087** |
| Shares that are not quoted | **-** | - | 27.153 | **27.153** | - | - | 27.757 | **27.757** |
| **Derivates** | **-** | 181.204 | - | **181.204** | - | 64.665 | - | **64.665** |
| | | | | | | | | |
| **FINANCIAL LIABILITIES** | **-** | **95.518** | **-** | **95.518** | **-** | **44.458** | **-** | **44.458** |
| Derivate liabilities | - | 95.518 | - | **95.518** | - | 44.458 | - | **44.458** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (Continued)**

**35.10. Fair Value of Financial Assets and Liabilities (Continued)**

**Changes in the level of financial instruments valued at fair value**

RSD thousand

| | 31.12.2018. | | | 31.12.2017. | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **Securities** | | | | | | |
| Transfer from Level 1 | - | 1.937.833 | - | - | - | - |
| Transfer from Level 2 | - | - | 1.596 | 2.815.275 | - | - |
| Transfer from Level 3 | - | 357.069 | - | - | 3.650.577 | - |
| **Total** | **-** | **2.294.902** | **1.596** | **2.815.275** | **3.650.577** | **-** |

**Reclassification between levels 1 and 2, arranged by categories of measurements and instruments**

RSD thousand

| | 31.12.2018. | | 31.12.2017. | |
|---|---|---|---|---|
| | From Level 1 to Level 2 | From Level 2 to Level 1 | From Level 1 to Level 2 | From Level 2 to Level 1 |
| **Financial assets AfS** | | | | |
| Bonds | - | - | - | 1.169.138 |
| **Financial assets FVOCI** | | | | |
| Bonds | 1.136.866 | - | - | - |
| **Financial assets HfT** | | | | |
| Bonds | - | - | - | 1.396.641 |
| **Financial assets FVPL** | | | | |
| Bonds | 559.991 | - | - | - |
| **Total** | **1.696.857** | - | - | **2.565.779** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (Continued)**

**35.10. Fair Value of Financial Assets and Liabilities (Continued)**

**Development of the fair value of financial instruments at FV level 3**

RSD thousand

| | 01.01.2018. | Transfer in level FV 3 | Transfer from level FV 3 | 31.12.2018. |
|---|---|---|---|---|
| **Assets** | | | | |
| Other financial assets FVPL | 355.122 | - | (116.592) | **238.530** |
| Equity instruments | 27.757 | 992 | - | **28.749** |
| **Financial assets FVOCI** | | | | |
| Equity instruments | - | 67.261 | - | **67.261** |
| Debt securities | 1.183.740 | - | (1.183.740) | **-** |
| **Total** | **1.566.619** | **68.253** | **(1.300.332)** | **334.540** |

| | 31.12.2016. | Transfer in level FV 3 | Transfer from level FV 3 | 31.12.2017. |
|---|---|---|---|---|
| **Assets** | | | | |
| Other financial assets HFT | 670.797 | - | (315.675) | **355.122** |
| **Financial assets AfS** | | | | |
| Equity instruments | 18.793 | - | (10.973) | **7.820** |
| Debt securities | - | 1.183.740 | - | **1.183.740** |
| **Total** | **689.590** | **1.183.740** | **(326.648)** | **1.546.682** |

**Income and expense for other financial assets at FV level 3**

RSD thousand

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| **Assets** | | |
| **Financial assets FVPL** | | |
| Debt securities | 1.134 | (500) |
| **Total** | **1.134** | **(500)** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**35. RISK MANAGEMENT (continued)**

**35.10. Fair Value of Financial Assets and Liabilities (continued)**

Of bonds that are valued at fair value on 31 December 2018, only one RS bond is allocated to level FV 3 (ISIN RSMFRSD37179, nominal amount of EUR 2.000.000). Reuter's quotes were updated less than a month in the observation period, which determined that the bond should be classified at level 3.

For a bond assigned to the FV level 3, the sensitivity analysis on the fair value of the bond yields the following results:
MtM positive EUR 16.600 (credit spread changed to -75bps)
MtM negative EUR -22.133 (credit spread changed for + 100bps)

All RS bonds that are deployed to the FV level 2, which are valued at market value, were valued by quoting from Reuters. The EBRD bond was valued through the yield curve, by discounting cash flows, and was assigned to level 2.

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.

**RSD thousand**

| | **31.12.2018.** | | **31.12.2017.** | |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Securities held to maturity | 10.828.561 | 10.828.561 | 8.284.452 | 8.284.452 |
| Loans and receivables due from banks | 1.492.872 | 1.486.073 | 2.199.060 | 2.175.924 |
| Loans and receivables due from customers | 146.346.487 | 152.730.529 | 110.472.729 | 119.632.896 |
| Construction objects | 776.491 | 776.491 | 752.646 | 752.646 |
| Fixed assets intended for sale | 12.288 | **24.272** | 12.288 | 24.273 |
| **FINANCIAL LIABILITIES** | | | | |
| Deposits due to banks | 67.153.387 | 68.809.379 | 51.859.707 | 53.866.328 |
| Deposits due to customers | 113.210.214 | 113.915.305 | 91.982.128 | 92.617.344 |

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 2018, there were no reclassifications within the financial asset position.

## 36. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Operating Lease Commitments

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

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

**RSD in thousand**

| | **31.12.2018.** | **31.12.2017.** |
|---|---|---|
| Within a year | 24.209 | 30.133 |
| From 1 to 5 years | 28.714 | 53.257 |
| | **52.923** | **83.390** |

### (b) Litigations

As at 31 December 2018, the Group had 611 initiated litigations in the total amount of RSD 1.839.945 thousand in which it had the status of the respondent (31 December 2017: RSD 1.706.339 thousand). Penalty interest from litigations led against the Group amounts to RSD 110.498 thousand (31 December 2017: RSD 231.200 thousand).

Based on the assessment of Group’s legal representatives for the above mentioned disputes, on day 31 December 2018 the Group made a provision in the amount of RSD 239.812 thousand (RSD 185.106 thousand as at 31 December 2017) for disputes that are expected to fall at the Group’s expense on this date. The Group's management estimates that materially significant losses will not arise on the basis of the outcome of the court disputes in excess of the amount for which the provision was made.

### (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 Group’s management believes that the Group’s tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

## 37. RECONCILIATION OF OUTSTANDING RECEIVABLES AND LIABILITIES BALANCES

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

The Group sent its customers outstanding items statements (OIS) as of 31 October 2018 in total amount of RSD 153.421.848 thousand. Confirmed receivables amounted to RSD 128.204.502 thousand.

The amount of disputed receivables amounted to RSD 573 thousand and the Group is in contact with clients in order to resolve conflicts.

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

## 38. Segment Reporting

Management of the Group 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


### a) *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 Group, 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 Project Financing (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 Group's own purposes.

**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 Group'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 Group'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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

### 38. Segment reporting (continued)

**Business segmentation consolidated**

| | Customers | | Small and medium-sized enterprises | | Commercial project financing | | Large corporate clients | | Financial markets | | Other | | GROUP | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| in 000 RSD | 12.2018 | 12.2017 | 12.2018 | 12.2017 | 12.2018 | 12.2017 | 12.2018 | 12.2017 | 12.2018 | 12.2017 | 12.2018 | 12.2017 | 12.2018 | 12.2017 |
| **B. Profit & loss account** | | | | | | | | | | | | | | |
| Net interest income | 4,295,795 | 3,941,120 | 1,495,724 | 1,500,932 | 499,011 | 496,000 | 309,431 | 446,785 | 146,752 | 236,559 | (20,777) | (251,988) | 6,725,936 | 6,369,408 |
| Dividend income | - | - | - | - | - | - | - | - | - | - | 368 | 249 | 368 | 249 |
| Net result from equity method investments | - | - | - | - | - | - | | - | - | - | - | 23,481 | - | 23,481 |
| Rental income from investment properties & other operating leases | - | - | 2,944 | 2,488 | - | - | 3,910 | 8,445 | - | - | (778) | (15,929) | 6,075 | 4,996 |
| Net fee and commission income | 1,199,357 | 1,068,915 | 357,117 | 304,372 | 18,526 | 14,689 | 146,931 | 134,330 | 34,607 | 26,891 | (175,877) | (178,502) | 1,580,661 | 1,370,695 |
| Net trading result | 160,480 | 131,531 | 40,312 | 28,771 | 10,047 | 10,800 | 10,089 | 10,191 | 384,838 | 223,357 | (399) | 97,980 | 605,368 | 502,629 |
| Gains/losses from financial instruments measured at fair value through profit or loss | - | - | - | - | - | - | - | - | - | - | (55) | - | (55) | - |
| Other administrative expenses | (4,486,352) | (4,172,072) | (876,014) | (794,842) | (125,277) | (107,206) | (260,541) | (226,621) | (132,690) | (118,248) | 13,695 | (52,135) | (5,867,178) | (5,471,125) |
| Gains/losses from derecognition of financial assets measured at amortised cost | 294 | | - | | - | | - | | - | | - | | 294 | |
| Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss | - | | - | | - | | - | | - | | 7,724 | | 7,724 | |
| Gains/losses from reclassification out of the amortised cost to the fair value through profit or loss category | - | | - | | - | | - | | - | | - | | | |
| Gains/losses from reclassification out of fair value through other comprehensive income to the fair value through profit or loss category | - | | - | | - | | - | | - | | - | | | |
| Gains/losses from financial assets and financial liabilities not measured at fair value through profit or loss, net | | 4,563 | | 45,119 | | - | | - | | - | | 11,541 | | 61,223 |
| Net losses from impairment of investments and non-financial institutions not measured at fair value through profit or loss | | (1,666) | | (714) | | (0) | | (0) | | - | | (7,501) | | (9,881) |
| Net losses from impairment of financial assets not measured at fair value through profit or loss | | (234,218) | | 156,062 | | 66,856 | | 203,537 | | (0.0) | | (43,787) | | 148,450 |
| Impairment result from financial instruments | 15,577 | | (139,156) | | (65,884) | | 319,246 | | - | | 74,503 | | 204,286 | |
| Other operating result | 8,073 | 31,641 | 27,266 | (42,110) | - | (5,300) | 21,462 | 4,375 | (3,936) | (2,628) | (122,087) | (66,257) | (69,221) | (80,279) |
| **Pre-tax result from continuing operations** | **1,193,224** | **769,812** | **908,194** | **1,200,079** | **336,424** | **475,839** | **550,528** | **581,042** | **429,572** | **365,930** | **(223,684)** | **(482,849)** | **3,194,257** | **2,909,854** |
| Taxes on income | (89,420) | (55,364) | (46,596) | (87,073) | (24,968) | (35,337) | (28,757) | 40,666 | (37,086) | (26,317) | (286) | 35,463 | (227,113) | (209,295) |
| **Profit or loss for the year** | **1,103,804** | **714,448** | **861,598** | **1,113,006** | **311,455** | **440,502** | **521,770** | **540,376** | **392,486** | **339,613** | **(223,970)** | **(447,386)** | **2,967,143** | **2,700,559** |
| Net result attributable to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (0) | (9,945) | (11,399) | (9,945) |
| **Net result attributable to the owners of the parent** | **1,103,804** | **714,448** | **861,598** | **1,113,006** | **311,455** | **440,502** | **521,770** | **540,376** | **392,486** | **339,613** | **(223,970)** | **(457,331)** | **2,955,744** | **2,690,613** |
| Operating Income | 5,655,632 | 5,141,565 | 1,896,097 | 1,836,564 | 527,584 | 521,490 | 470,361 | 599,751 | 566,198 | 486,806 | (370,476) | (324,710) | 8,745,396 | 8,261,466 |
| Operating Expenses | (4,486,352) | (4,172,072) | (876,014) | (794,842) | (125,277) | (107,206) | (260,541) | (226,621) | (132,690) | (118,248) | 13,695 | (52,135) | (5,867,178) | (5,471,125) |
| **Operating Result** | **1,169,280** | **969,493** | **1,020,083** | **1,041,722** | **402,307** | **414,283** | **209,819** | **373,130** | **433,508** | **368,558** | **(356,780)** | **(376,845)** | **2,878,218** | **2,790,341** |
| **A. Balance sheet** | | | | | | | | | | | | | | |
| Total assets (period end balance) | 69,625,501 | 51,906,453 | 46,828,713 | 37,586,230 | 15,126,331 | 12,872,863 | 18,561,289 | 11,876,823 | 10,434,674 | 11,852,407 | 50,419,112 | 42,443,290 | 210,995,621 | 168,538,066 |
| Total liabilities (period end balance) | 66,768,395 | 58,364,359 | 28,181,750 | 28,710,453 | 9,036,024 | 9,610,850 | 19,622,682 | 11,229,909 | 2,705,221 | 2,724,198 | 60,728,528 | 37,547,854 | 187,042,600 | 148,187,623 |
| Equity | 5,560,807 | 3,596,939 | 4,662,977 | 3,379,903 | 1,638,707 | 1,067,849 | 1,675,091 | 1,514,604 | 855,858 | 1,461,990 | 9,559,581 | 9,329,158 | 23,953,021 | 20,350,443 |
| **C. Key indicators/parameters** | | | | | | | | | | | | | | |
| Cost/Income Ratio | 79% | 81% | 46% | 43% | 24% | 21% | 55% | 38% | 23% | 24% | 4% | 16% | 67% | 66% |
| Loans/Deposits Ratio (net) | 101% | 87% | 232% | 275% | 167% | 138% | 96% | 649% | 0% | 0% | 7% | 18% | 120% | 114% |
| Return on the average allocated equity | 20% | 20% | 18% | 35% | 19% | 41% | 31% | 36% | 46% | 23% | -2% | -4% | 12% | 13% |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

## 39. ADDITIONAL CASH FLOW INFORMATION

| | 2018 | 2017 |
|---|---|---|
| Cash | 3.239.312 | 2.798.893 |
| Gyro account | 4.730.803 | 8.681.382 |
| Loans to banks | 491.198 | 1.150.593 |
| **Balance as at 31 December** | **8.461.312** | **12.630.868** |

The mandatory reserves with the National Bank of Serbia are not available for day-to-day operations and therefore are not part of cash and cash equivalents (Note 18).

## 40. EVENTS AFTER THE REPORTING PERIOD

There were no events after the balance sheet date that would require corrections or disclosures in the individual financial statements for 2018.

## 41. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia were determined at the interbank foreign exchange market meeting. Exchange rates used for the calculation of the foreign exchange position of the balance sheet as at 31 December 2018 and 31 December 2017 for certain foreign currencies are:

RSD in thousand

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| EUR | 118,1946 | 118,4727 |
| USD | 103,3893 | 99,1155 |
| CHF | 104,9779 | 101,2847 |

Novi Sad, March 11, 2019

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

| Stevan Čomić | Aleksandra Radić | Slavko Carić |
|---|---|---|
| Head of Accounting and Controlling Department | Executive Board Member | Executive Board Chairman |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2018**

**Attachment**

**Used abbreviations:**

| | |
|---|---|
| **AC** | Amortized cost |
| **AFS** | Available for sale |
| **ALCO** | Asset and Liability Management Committee |
| **ALM** | Asset and Liabilities Management |
| **AML** | Anti-Money Laundering |
| **bps** | Basis points |
| **CCF** | Credit Conversion Factor |
| **CR01** | Credit Price Value |
| **CRR** | Capital Requirements Regulation |
| **CVA** | Credit Value Adjustments |
| **DTA** | Deferred tax asset |
| **DVA** | Debit Value Adjustment |
| **EAD** | Exposure at Default |
| **EBA** | European Banking Authority |
| **EIR** | Effective interest rate |
| **EVE** | Economic Value Of Equity |
| **FVOCI** | Fair value through other comprehensive income |
| **FVPL** | Fair value through profit or loss |
| **FV** | Fair value |
| **FX** | Foreign exchange |
| **GCA** | Gross Carrying Amount |
| **HFT** | Held for trading |
| **HTM** | Held to maturity) |
| **ICAAP** | Internal capital adequacy assessment process |
| **IRB** | Internal Ratings Based Approach |
| **LGD** | Loss Given Default |
| **LTV indicator** | Loan To Value |
| **IAS** | International Accounting Standards |
| **IFRS** | International Financial Reporting Standards |
| **MVoE** | Market Value of Equity |
| **NSFR** | Net Stable Funding Ratio |
| **OCI** | Other Comprehensive Income |
| **OTC derivates** | Over the Counter derivates |
| **PD** | Probability of Default |
| **POCI** | Purchased or originated credit impaired |
| **PVBP** | Price Value Basis Point |
| **RCC** | Risk-bearing Capacity Calculation |
| **REPO** | Repurchase Agreement |
| **RSD** | Dinar of the Republic of Serbia |
| **SICR** | Significant increase in credit risk |
| **SME** | Small and Medium Size Enterprises |
| **SPA** | Survival Period Analysis |

| | |
|---|---|
| **SPPI** | Solely payments of Principal and Interest |
| **SREP** | Supervisory Review and Evaluation Process |
| **VaR** | Value-at-Risk |