ERSTE BANK A.D. NOVI SAD

SEPARATE 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 stand alone financial statements of Erste Bank a.d. Novi Sad (the "Bank") which comprise the balance sheet as of 31 December 2018 and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the stand alone financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Saša Todorović

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 11 March 2019

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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	8.250.544	7.498.937
Interest expense	4	(1.559.142)	(1.280.969)
Net interest income		**6.691.402**	**6.217.968**
Fee and commission income	5	2.522.720	2.258.961
Fee and commission expense	5	(933.746)	(771.004)
Net income from fee and commission		**1.588.974**	**1.487.957**
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	422.539	225.060
Net gains from reduction of impairment of financial assets that are not valued at fair value through profit and loss	10	-	26.473
Net loss from reduction of impairment of financial assets that are not valued at fair value through profit and loss	10	(146.249)	-
Net gains from derecognition of financial instruments valued at amortized cost	11	15.095	-
Other operating income	12	40.091	44.262
TOTAL NET OPERATING INCOME		**8.798.731**	**8.285.091**
Cost of salaries, contributions and other personnel expenses	13	(2.100.577)	(1.932.260)
Depreciation costs	14	(320.581)	(290.092)
Other income	15	388.369	193.231
Other expenses	16	(3.632.699)	(3.419.750)
PROFIT BEFORE TAX		**3.133.243**	**2.836.220**
Income tax	17	(252.560)	(160.965)
Deferred tax gain	17	37.800	-
Deferred tax loss	17	-	(43.015)
NET INCOME	33	**2.918.483**	**2.632.240**

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. ERSTE 1 NOVI SAD

Slavko Carić
Executive Board Chairman

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

(in thousand RSD)

Position	NOTE	2018.	2017.
PROFIT FOR THE YEAR	33	**2.918.483**	**2.632.240**
Components of other comprehensive income that can not be reclassified to profit or loss:			
Actuarial gains		5.832	11.038
Positive effects of changes in value of equity instruments valued through other comprehensive income		35.382	140.043
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		76.082	4.995
Tax loss related to other comprehensive income of the period		(23.122)	(21.756)
Total other comprehensive income		**94.174**	**134.320**
TOTAL COMPREHENSIVE INCOME OF PERIOD		**3.012.657**	**2.766.560**

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	Slavko Carić Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 1

BALANCE SHEET AS AT 31 DECEMBER 2018

(in thousand RSD)

ASSETS	Note	2018.	2017.
Cash and balances with Central bank	18	24.641.261	20.774.027
Derivative receivables	19	181.204	64.664
Securities	20	34.891.510	32.247.845
Loans and receivables to banks and other financial institutions	21	1.700.361	2.210.553
Loans and receivables to customers	22	138.393.437	104.140.053
Investment in subsidiaries	23	93.560	93.560
Intangible assets	24	537.025	247.298
Property, plant and equipment	24	1.062.904	1.070.689
Current tax asset	17	173.326	-
Deferred tax asset	17	18.809	-
Fixed assets held for sale and assets of discontinued operations	25	11.902	11.901
Other assets	26	1.226.714	1.060.415
TOTAL ASSETS		**202.932.013**	**161.921.005**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative liabilities	27	95.518	44.458
Deposits and other liabilities from banks, other financial institutions and Central Bank	28	59.322.207	45.570.431
Deposits and other liabilities from customers	29	113.210.214	91.982.128
Subordinated liabilities	30	4.566.337	1.354.523
Provisions	31	654.200	752.742
Current tax liabilities	17	252.560	160.965
Deferred tax liabilities	17	-	5.248
Other liabilities	32	1.199.176	1.155.947
TOTAL LIABILITIES		**179.300.212**	**141.026.442**
Equity	33		
Share capital		10.164.475	10.164.475
Retained earnings		2.918.483	2.632.240
Reserves		10.548.843	8.097.848
TOTAL EQUITY		**23.631.801**	**20.894.563**
TOTAL LIABILITIES AND EQUITY		**202.932.013**	**161.921.005**

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

Novi Sad, March 11, 2019

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

ERSTE BANK NOVI SAD 1

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
Opening balance at January 1, 2017	**10.040.000**	**124.475**	**5.614.904**	**283.703**	**2.064.920**	**18.128.002**
Total other comprehensive income	-	-	-	134.322	-	134.322
Profit for the year	-	-	-	-	2.632.237	2.632.237
Transfer from profit to reserves	-	-	2.064.920	-	(2.064.920)	-
Balance at December 31, 2017	**10.040.000**	**124.475**	**7.679.824**	**418.025**	**2.632.237**	**20.894.561**
Opening balance at January 1, 2018	**10.040.000**	**124.475**	**7.679.824**	**418.025**	**2.632.237**	**20.894.561**
Effect of IFRS 9 transition	-	-	-	-	(275.417)	(275.417)
Balance at January 1, 2018	**10.040.000**	**124.475**	**7.679.824**	**418.025**	**2.356.820**	**20.619.144**
Total other comprehensive income	-	-	-	94.174	-	94.174
Profit for the year	-	-	-	-	2.918.483	2.918.483
Transfer from profit to reserves	-	-	2.356.820	-	(2.356.820)	-
Balance at December 31, 2018	**10.040.000**	**124.475**	**10.036.644**	**512.199**	**2.918.483**	**23.631.801**

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

Novi Sad, March 11, 2019

Stevan Ćomić
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

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	**11.129.949**	**9.964.460**
Interest receipts	8.139.427	7.465.155
Fee and commission receipts	2.519.617	2.274.705
Receipts of other operating income	430.815	224.351
Dividend receipts and profit sharing	40.090	249
Cash used in operating activities	**8.379.261**	**7.258.333**
Interest payments	1.535.276	1.323.969
Fee and commission payments	933.811	772.163
Payments to and on behalf of employees	2.078.583	1.910.860
Taxes, contributions and other duties paid	420.320	310.225
Payments for other operating expenses	3.411.270	2.941.115
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**2.750.688**	**2.706.127**
Decrease in placements and increase in deposits and other liabilities	**21.712.863**	**7.319.077**
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	21.712.863	7.319.077
Increase in loans and decrease in deposits received and other liabilities	**44.808.329**	**17.132.466**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	42.227.477	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 activities before income tax	**20.344.777**	**7.107.262**
Paid income tax	334.290	-
Net cash outflow from operating activities	**20.679.068**	**7.107.262**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**216.576**	**308.029**
Inflows from investing in investment securities	**216.576**	**34.475**
Inflows from the sale of investment properties	-	**273.554**
Cash outflows from investment activities	**594.139**	**413.912**
Outflows from investing in investment securities	-	-
Inflows from the sale of investment properties	594.139	413.912
Net cash outflow of cash from investment activities	**377.563**	**105.883**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**16.533.037**	**8.738.852**
Cash inflows based on subordinated liabilities	3.211.814	-
Inflows from taken loans	13.321.223	8.569.624
Other inflows from financing activities	-	169.228
Cash outflows from financing activities	**68.502**	**420.315**
Cash outflows based on subordinated liabilities	0	410.083
Other outflows from financing activities	68.502	10.233
Net cash inflow from financing activities	**16.464.535**	**8.318.537**
TOTAL CASH INFLOWS	**49.592.426**	**26.330.418**
TOTAL CASH OUTFLOWS	**54.184.521**	**25.225.026**
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 EXC HANGE 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 Comić 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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

1. GENERAL INFORMATION

Erste Bank a.d. Novi Sad is the oldest financial institution in the country, founded in 1864 as the first savings bank (Novosadska štedionica). During 2005, Novosadska banka became a member of Erste Group, which was founded in 1819 as the first savings bank in Austria.

By the decision of Business Register Agency no. BD 101499/2005 as at 21 December 2005, a change in the name of Novosadska banka ad, Novi Sad in Erste Bank a.d., Novi Sad was registered.

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

As at 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., Serbia, while the remaining 25% are held by Steiermärkische Bank und Sparkassen AG. Furthermore, in 2014 the Bank acquired a 19% equity interest in S Rent d.o.o., Serbia.

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

The Bank is registered in the Republic of Serbia 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, at no. 5, Bulevar Oslobođenja St. The Bank operates through 7 business centres, 46 branches, 9 sub-branches and 4 counters.

As at 31 December 2018, the Bank had 1.117 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank's separate financial statements (the "financial statements") as at and for the year ended 31 December 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 no. 101/2017, 38/2018 and 103/2018).

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

These financial statements were prepared at historical cost principle, except for the following items measured at fair value: financial assets at fair value through profit and loss account and financial assets at fair value through other comprehensive income.

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

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

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

A) New and amended standards and interpretations

The new and amended IFRSs, set out below, entered into force on 1 January 2018:

Starting from 1 January 2018, the Bank 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.

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

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	-	-	-
Derivative 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	2.210.553	2.210.257	296	-	-	-
Loans and advances to customers				104.140.053	103.854.618	285.435	-	-	-
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	-	-	-	-	-
Derivative liabilities				-	44.458	-	-	-	-
Deposits and other liabilities from banks, other financial institutions and central bank	Amortized cost	Amortized cost	Amortized cost	45.570.431	45.570.431	-	-	-	-
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 296 thousand or RSD 285.435 thousand
7) In the financial 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) Derivative 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 SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and the impairment model due to 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	-
Derivative 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	12.687	11.134	(1.553)	-
Loans and advances to customers	Amortized cost	Amortized cost	3.926.155	3.221.339	(704.816)	-
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) Positions Loans and advances to banks and other financial organizations and Loans and advances to customers have shown the effect on impairment allowances due to re-valuation, i.e. the adoption of IFRS 9 standard in the amount of RSD 1.553 thousand or RSD 704.816 thousand, of which RSD 264.711 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	-	-	-	-
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, as at 31 December 2018, the Bank reduced the basis for calculation of current income tax in the amount of RSD 8.262.595,85 and recognized deferred tax assets in the amount of RSD 33.050.383,38.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A) New and amended standards and interpretations (continued)

Classification, Subsequent Measurement and Balance Sheet Items of Financial Instruments as per IAS 39

According to the IAS 39, the Bank classified financial assets into the following categories: financial assets at fair value through profit and loss account, financial assets held to maturity, loans and advances and investments available for sale.

Cash and cash equivalents in a comparative period

In the Cash flow statement, under cash and cash equivalents following is included: cash on the giro account of the Bank, cash on the treasury accounts (dinar and foreign exchange) and foreign currency funds on the accounts with domestic and foreign banks with original maturity up to 3 months.

Financial assets at fair value through profit and loss account in comparative period

This category includes two sub-categories of financial assets: those held for trading and those assets that are designated at fair value through profit and loss account at initial recognition. Financial assets are classified as trading assets if they are acquired for the purpose of selling or re-buying in the short term, in order to generate profits from short-term changes in the prices. These assets are recorded in the balance sheet at fair value. The Bank also has derivatives that are classified at fair value through profit and loss account. Securities held for trading include bonds and government bills of the Republic of Serbia. All gains and losses arising upon the valuation and sale of financial assets at fair value are recorded in the income statement. At the initial recognition, management did not classify financial assets in the sub-category of assets that are carried at fair value through profit and loss account.

Financial assets held to maturity in a comparative period

Securities held-to-maturity are financial assets with fixed payments or payments that can be settled with a fixed maturity for which the Bank has a positive intention and the ability to hold them up to maturity, and that do not meet the definition of loans and receivables. After initial recognition, securities held to maturity are recorded at amortized cost by using the discounted method of effective interest rate, reduced by impairment allowances i.e. impairment losses. Amortized value is calculated by taking into account all discounts or purchase premiums during the maturity period. Revenues based on accrued interest on these instruments are calculated using the effective interest rate method and are stated within the Interest income. Fees that are part of the effective return on these instruments are recognized in favour of profit and loss account during the life period of the instrument. The Bank performs an individual assessment to determine whether there is objective evidence of impairment of investments in securities held to maturity. If there is objective evidence that there has been impairment, the amount of the impairment loss is calculated as the difference between the book value of the investment and the present value of the expected cash flows discounted at the original interest rate of the investment and it is recorded in the income statement as an expense of indirect write-offs of placements. If, in the following year, the amount of estimated impairment is reduced as a result of an event that followed the recognition of impairment, any impairment previously recognized is diminished and the effects are recorded in favour of the profit and loss account. The decrease in the impairment will not result in a book value above the amortization cost as if the asset was not impaired.

Loans and advances to banks and customers in a comparative period

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 can not 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 placements to banks and customers are recorded at amortized cost by using the discounted method of effective interest rate, reduced by impairment allowances. Amortized value is calculated by taking into account all discounts or purchase premiums during the maturity period. Depreciation is included within the Interest income in the Income statement. Impairment losses are recognized under the Net loss from impairment of financial assets in 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 amount of 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 currency clause are recorded in the income statement as revenue, i.e. exchange rate differences expense based on the contractual currency clause.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A) New and amended standards and interpretations (continued)

Available-for-sale financial assets in a comparative period

Securities that are intended to be held for an indefinite period of time and which can be sold or pledged with the National Bank of Serbia as collateral in order to obtain liquidity loans, due to the need for securing liquidity or changes in interest rates, foreign exchange rates or the cost of capital, are classified as "securities available for sale". Securities available for sale include equity instruments of other legal entities and debt securities. After initial recognition, securities available for sale are stated at fair value. The fair value of securities, listed on the stock exchange, is based on current bid prices. Unrealized gains and losses on securities available for sale are recorded within the Other Comprehensive Income, while the securities are not sold, collected or otherwise realized, or until such securities are impaired. When securities that are available for sale are sold or impaired, cumulative fair value adjustments recognized within the Other Comprehensive Income are reclassified to the Income statement. Participation in the equity of other legal entities that do not have a quoted market price in the active market and for which the other methods of rational valuation are left unsuitable are exempted from the market price valuation and are stated at cost reduced for any allowance for impairment. Dividends acquired when holding available-for-sale financial assets are included in other operating revenues and equity interest when the right to receive payment on dividend has arisen. When it comes to equity interest and other securities available for sale, the Bank assesses at the balance sheet date whether there is objective evidence that one or more investments are impaired. In the case of equity interest of other legal entities classified as available-for-sale, significant or prolonged decline in the fair value of investments below the cost is classified as objective evidence. When there is an evidence of impairment, a cumulative loss, estimated as the difference between the purchase price and the current fair value reduced for any impairment loss on that investment, previously recognized in the income statement, is removed from equity and is recognized as the expense in the income statement.

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

Financial statement line	Measurement method			Category of financial instrument
	Fair value	Amortized cost	Other	
Cash and cash equivalents		x		Loans and advances
Financial assets at fair value through Profit and Loss account held for trading	x			Assets held for trading
Available-for-sale financial assets – equity securities	x			AFS
Available-for-sale financial assets - debt securities	x			AFS
Financial assets held to maturity		x		HTM
Derivative receivables	x			Assets held for trading
Loans and advances to banks and other financial institutions		x		Loans and advances
Loans and advances to customers				
Other assets		x		Amortized cost

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 Bank'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 Bank's usual activities (e.g. sale of fixed tangible or intangible assets). The standard requires detailed disclosures, including the classification of total revenues, information on the performance obligations of the contract, changes in the status of assets and liabilities under the contracts between periods, and key estimates. It is not expected that the requirements of this standard will have a significant impact on the Bank’s financial statements.

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

The clarifications of the standards will apply starting from or after 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 Bank that will apply IFRS 15 completely retrospectively, or which will choose the application of a modified retrospective approach. It is not expected that the requirements of this standard will have a significant impact on the Bank's financial statements.

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

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

• **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 Bank'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 can not 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 Bank'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 Bank 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 can not 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 Bank 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 Bank 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, Erste Bank 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 Bank will not apply IFRS 16 to any intangible assets contracts. Erste Bank 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 at 1 January 2019, as well as the amount of leasing obligations that will be recognized as at 1 January 2019, according to the Bank's assessment, will approximately be in amount of RSD 1.297.923 thousand in which the balance sheet amount of the Bank will increase.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **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 Bank's management does not expect that the requirements of this standard will have a significant impact on the Bank's financial statements.

- **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 Bank's management does not expect that the requirements of this standard will have a significant impact on the Bank's financial statements.

The following new disclosures are not expected to have significant impact on the Bank'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 on 22 October 2018 and effective for periods beginning on or after 1 January 2020).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Interest income and expenses

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

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

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

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 classified as Stage 1.

2.3. Fee and Commission Income and Expenses

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

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

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

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

/ii/ Fee Income Earned from Transaction Services

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

/iii/ Dividend Income

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

2.4. Foreign Exchange Translation

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

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

2.5. 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.

2.6 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.

2.6.1. 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 Bank 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 36.11. Fair value of financial assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

2.6.2. Initial recognition and evaluation

a) Initial recognition

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

b) Initial recognition 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 Bank immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement. In the event that the difference in the price of the transaction and the fair value is determined on the basis of non-market parameters, the gain / loss on the first day is deferred into the duration of the financial instrument.

2.6.3. Classification and subsequent evaluation

Bank 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 Bank 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.

2.6.3.1. 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 Bank'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)

2.6. Financial instruments (continued)

2.6.3.2 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 bank'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 bank'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 Bank 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 Bank. 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 Bank are valued at fair value through profit and loss.

2.6.3.3. 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 bank, this is a business model by which financial assets are held for trading.

The bank in its portfolio of securities has a part of debt instruments held for trading.
The Bank 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.

2.6.4. Impairment of financial instruments under IFRS 9

The Bank 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 Bank in accordance with the contract and the cash flows that the Bank 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 Bank 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 Bank distinguishes between three stages of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

2.6.4. 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 not 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).

2.6.5. Derecognition of financial assets and liabilities

Financial assets cease to be recognized when the Bank 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 Bank 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 Bank is engaged around the asset. Further engagement of the Bank, 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 Bank would have to pay, depending on the amount that is lower.

In its regular operations during the term of the loan agreement, the Bank 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 Bank 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 bank.

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 favourable to the client as an alternative to refinancing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

2.6.5. Derecognition of financial assets and liabilities (continued)

In case of significant modifications of the contractual terms (as stated above), the Bank 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.

2.6.6. Restructured loans

Where possible, the Bank is more likely to reprogram or restructure loans than to realize collateral. This may involve extending the repayment period or any other change to the initial lending terms. Reprograms can be business or forbearance as defined by the EBA.

Business reprogram involves the change of initially contracted conditions that is not conditioned by deterioration of the borrower's financial position, i.e. mitigation of the consequences of the deteriorated financial position and does not represent restructuring. The result is a changed situation on the market (buyers, suppliers, competition) and the need to adapt the existing dynamics and loan conditions to the newly emerging situation.

Forbearance represents restructuring conditioned with:

- the debtor's inability to meet contractual obligations due to financial difficulties and
- the need for the bank to make certain concessions so that the client can service contractual obligations.

After the change of conditions, it is not considered that the loan has matured, but if after the restructuring there is evidence of the impairment of the receivable, the client is granted the status of the default. The Bank continuously controls the reprogrammed loans to ensure that all criteria are met, as well as future payments or the timely assignment of the default status to a client who does not comply with the defined criteria.

2.6.7. 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 Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Deposits and Other Liabilities due to Banks and Customers

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

Borrowings

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

Other Liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Offsetting Financial Assets and Financial Liabilities

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

2.8. Cash and Cash Equivalents

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

2.9. 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.

2.10. Investments in Subsidiaries

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

As at 31 December 2018, the Bank owns 75% of the ownership of the company S Leasing doo, Belgrade. Participation in the capital of the said dependent legal entity is stated at the cost less any allowance for impairment in the individual financial statements of the Bank.

2.11. Intangible Assets

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

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

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

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

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

Software licence	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)

2.12. Property, Plant and Equipment and Investment Property

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

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

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

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

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

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

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

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

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

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

2.13. Impairment of Non-Financial Assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. 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) Financial leasing – *Bank as a Lessee*

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

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

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

(b) *Operating leasing – the Bank as Lessee*

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

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

2.15. Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Employee Benefits

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

In accordance with the Republic of Serbia regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

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

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

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

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

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

(c) Short-Term Compensated Absences

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

(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, fulfilment 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)

2.17. Financial Guarantees

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

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

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

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

2.18. Assets acquired through collecting receivables

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

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

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

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

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

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

From the balance sheet date, the Bank's management analyses the value of the inventory according to which the assets of the Bank are disclosed. If there is an indication that a property is impaired, the recoverable amount of the asset is estimated to determine the amount of the impairment. If it is estimated that the recoverable amount of the property is lower than the value at which the property is disclosed, the present value of such assets is reduced to the amount of the realisable value.

The Risk Management Department performs evaluation. The write-offs of inventories to the net generated value, as well as the losses of inventories, are recognized as the expense of the period during which the write-off occurred and the occurrence of the loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Assets acquired through collecting receivables (continued)

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.

2.19. Taxes and Contributions

(a) *Income Taxes*

Current Income Tax

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

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

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)

2.19. Taxes and Contributions (continued)

(a) *Income Taxes (continued)*

Deferred Income Taxes (continued)

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

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

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

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

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

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

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

2.20. Segment Reporting

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

2.21. Managed Funds

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(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 bank upon the early termination. For these purposes, bank 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, eg 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 bank 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 Bank believes that all loans meet the SPPI criteria.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Business model assessment

For each SPPI-compliant financial asset at initial recognition, Bank 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.

Bank, 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 Bank estimates that all bank loans meet the business model holding in order to collect contracted cash flows.

Business models of the Bank:

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 Bank 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 36.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) 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 36.4 (sensitivity limits) and 36.11 (fair valuation and levels).

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

4. INTEREST INCOME AND EXPENSES

In RSD '000

	31.12.2018.	31.12.2017.
Interest income		
– Banks	147.243	144.619
– Public companies	83.792	86.792
– Corporate customers	2.292.762	2.178.964
– Entrepreneurs	103.486	65.329
– Public sector	1.651.989	1.591.075
– Retail customers	3.925.815	3.352.212
– Non-residents	21.897	35.131
– Agricultural producers	14.949	19.790
– Other customers	8.611	25.025
Total	**8.250.544**	**7.498.937**
Interest expense		
– Banks	301.318	264.395
– Public companies	14.274	29.432
– Corporate customers	166.618	74.108
– 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	**1.559.142**	**1.280.969**
Net Interest Income	**6.691.402**	**6.217.968**

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

In RSD '000

	31.12.2018.	31.12.2017.
Interest income		
Cash funds held at Central Bank	115.750	116.253
Securities valued at amortised cost	791.791	-
Securities held to maturity	-	742.723
Securities valued at FV through other comprehensive income	571.168	-
Securities available for sale	-	484.189
Securities valued at FV through profit and loss	264.338	-
Securities held for trading	-	289.977
Placements and advances to clients	5.917.178	5.293.973
Placements and advances to credit institutions	30.953	24.260
Interest-bearing swap	-	26.952
Other interest income	559.366	520.610
Total	**8.250.544**	**7.498.937**
Interest expense		
Subordinated liabilities	82.512	59.197
Bank deposits	447.905	320.003
Customer deposits	862.032	744.061
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 at FV through profit and loss	30.889	-
Securities held for trading	-	-
Interest-bearing swap	-	20.805
Other interest liabilities	187	201
Total	**1.559.142**	**1.280.969**
Net interest income	**6.691.402**	**6.217.968**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

5. FEE AND COMMISSION INCOME AND EXPENSES

In RSD '000

	31.12.2018.	31.12.2017.
Fee and commission income		
Domestic and foreign payment transaction services	1.445.677	1.304.418
Loans operations	7.351	3.805
Deposits operation	814.638	721.928
Payment cards operations	52.596	51.440
Guarantees and other warranties	154.338	135.558
Other fees and commissions	48.120	41.812
Total	**2.522.720**	**2.258.961**
Fee and commission expense		
Deposits operation	2	-
Domestic and foreign payment transaction services	571.134	501.746
Other fees and commissions	362.610	269.258
Total	**933.746**	**771.004**
Net fee and commission income	**1.588.974**	**1.487.957**

6. NET GAINS FROM CHANGES IN FV OF FINANCIAL INSTRUMENTS

In RSD '000

	31.12.2018.	31.12.2017.
Gains from changes in the value of assets and liabilities		
Gains from changes in value of other derivatives	455.935	491.972
Gains from changes in value of financial assets valued at FV through profit and loss	166.820	161.649
Total	**622.755**	**653.621**
Losses from changes in the value of assets and liabilities		
Losses from changes in value of other derivatives	397.083	327.502
Losses from changes in value of financial assets valued at FV through profit and loss	105.120	139.407
Losses from changes in value of financial liabilities valued at FV through profit and loss	6.796	-
Total	**508.999**	**466.909**
Net gains from changes in the FV of financial instruments	**113.756**	**186.712**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

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

		In RSD '000
	31.12.2018.	**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 value 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 value at FV	**71.924**	**94.592**

8. NET GAINS FROM HEDGING

		In RSD '000
	31.12.2018.	**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 derivatives	-	-
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 derivatives	-	-
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

		In RSD '000
	31.12.2018.	**31.12.2017.**
Positive foreign exchange difference	5.764.039	9.278.602
Negative foreign exchange difference	(5.262.263)	(6.102.950)
Positive currency clause effects	1.007.416	935.716
Negative currency clause effects	(1.086.653)	(3.886.308)
Net Income of Foreign Exchange and currency clause effects	**422.539**	**225.060**

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

	31.12.2018.	**In RSD '000** **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	5.406.524	7.413.620
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	**6.157.934**	**9.844.410**
Losses from impairment of financial asset not valued at FVTPL		
Losses from indirect write-offs of financial asset valued at amortized cost	5.615.900	7.332.124
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	**6.304.183**	**9.817.937**
Net gains/(losses) from impairment of financial asset not valued at FVTPL	**(146.249)**	**26.473**

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

In RSD '000

	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:		
– securities (Note 20)	(5.582)	(45.439)
– loans and advances to banks and other financial institutions (Note 21(b))	(3.074)	(6.539)
- loans and advances to customers (Note 22)	(3.111.299)	(2.408.295)
– other assets (Note 26)	(58.772)	(80.695)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(3.178.727)**	**(2.540.968)**
Provisions for losses on off-balance sheet assets (Note 31)	(149.162)	(2.485.813)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(3.327.889)**	**(5.026.781)**
Gains from impairment of financial assets and credit risk off-balance sheet items		
Gains from reversal of direct write-offs of placements of balance sheet items:		
– securities (Note 20)	38.225	924
– loans and advances to banks and other financial institutions (Note 21(b))	5.373	5.853
- loans and advances to customers (Note 22)	2.921.396	2.587.260
– other assets (Note 26)	4.356	28.427
Total gains from impairment of financial assets and credit risk off-balance sheet items	**2.969.350**	**2.622.464**
Provisions for losses on off-balance sheet assets (Note 31)	241.881	2.430.790
Total gains from impairment of financial assets and credit risk off-balance sheet items	**3.211.231**	**5.053.254**
Net loss from impairment of financial asset not valued at FVTPL	**(116.658)**	**26.473**

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

In RSD '000

	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**	**-**

12. OTHER OPERATING INCOME

	31.12.2018.	In RSD '000 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	4.542	3.276
Dividend income and other income from shares	368	249
Total	**40.091**	**44.262**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

	31.12.2018.	In RSD '000 31.12.2017.
Net salaries and benefits	1.328.279	1.213.079
Payroll taxes and contributions charged to the employee	500.495	460.751
Retirement benefits, jubilee awards, bonuses and annual leave	217.353	208.021
Other staff costs	32.456	29.004
Provision expenses for retirement (Note 31)	21.994	21.405
Total	**2.100.577**	**1.932.260**

14. DEPRECIATION COSTS

	31.12.2018.	In RSD '000 31.12.2017.
Depreciation expense:		
– Tangible assets (Note 24)	203.732	164.104
– Intangible assets (Note 24)	116.849	125.988
Total	**320.581**	**290.092**

15. OTHER INCOME

	31.12.2018.	In RSD '000 31.12.2017.
Income from collection of written receivables	320.030	83.532
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	66.131
Other income	37.419	39.552
Total	**388.369**	**193.231**

16. OTHER EXPENSES

	31.12.2018.	In RSD '000 31.12.2017.
Professional services	1.210.838	1.171.699
Donations and sponsorships	36.088	29.290
Marketing and advertising	248.592	259.479
Telecommunication services and postage	61.771	55.051
Insurance premiums	504.552	425.939
Rental cost	333.410	347.423
Cost of materials	110.184	132.127
Taxes and contributions payable	121.159	110.212
Maintenance of fixed assets and software	387.650	369.289
Losses on sale and disposal of fixed and intangible assets	3.242	9.077
Payroll contributions payable by the employer	302.281	276.047
Per diems and travel expenses	103.398	76.428
Training and counselling	33.602	44.122
Provision expenses for litigations (Note 31)	69.000	20.209
Other	106.932	93.358
Total	**3.632.699**	**3.419.750**

17. INCOME TAXES

a) Components of Income Taxes

Total tax expense is comprised of:

	31.12.2018.	In RSD '000 31.12.2017.
Current income tax expense	(252.560)	(160.965)
Gains on created deferred tax assets and decrease of deferred tax liabilities	37.800	-
Losses on decrease of deferred tax assets and created deferred tax liabilities	-	(43.015)
Total	**(214.760)**	**(203.980)**

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

	31.12.2018.	In RSD '000 31.12.2017.
Profit before tax	**3.133.243**	**2.836.220**
Income tax at the rate of 15%	**469.986**	**425.433**
Tax effects of expenses not recognized for the tax purposes	34.330	50.324
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)	885
Total tax expense stated in the income statement	**214.760**	**203.980**
Effective interest rate	**6,85%**	**7,19%**

17. INCOME TAXES (continued)

(c) Deferred Tax Components

In RSD '000

	2018	
	Temporary difference amount	**Deferred tax amount**
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	93.900	14.085
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(559.906)	(83.986)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	227.421	34.113
Deductible temporary difference based on provisions for litigations-deferred tax assets	110.538	16.581
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	75.784	11.368
Deductible temporary difference based on retirement provisions deferred tax assets	(42.680)	(6.402)
Temporary differences based on the effect of IFRS 9	220.336	33.050
Balance as at 31 December	**125.393**	**18.809**

	2017	
	Temporary difference amount	**Deferred tax amount**
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	53.829	8.074
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(448.441)	(67.266)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	175.183	26.277
Deductible temporary difference based on provisions for litigations-deferred tax assets	108.938	16.341
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	75.507	11.326
Balance as at 31 December	**(34.984)**	**(5.248)**

d) Movements on Deferred Taxes

In RSD '000

	2018	**2017**
Balance of deferred tax assets/(liabilities) as at 1 January	(5.248)	59.523
Effect of temporary tax differenced credited to the income statement	37.800	(43.015)
Effect of temporary tax differenced credited to equity	(13.743)	(21.756)
Deferred tax assets/(liabilities) balance as at 31 December	**18.809**	**(5.248)**

Creation of deferred tax assets in the amount of RSD 18.809 thousand (and the abolition of previously recognized deferred tax liabilities in the amount of RSD 5.248 thousand) had an effect on the income statement in the amount of RSD 37.800 thousand and the effect through capital in the amount of RSD 13.743 thousand.

During 2018, the Bank made a profit after tax in the amount of RSD 2.918.483 thousand. This amount will be allocated in accordance with the Decision at the forthcoming Bank assembly meeting.

18. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

In RSD '000

	2018	2017
In RSD		
Current account	4.730.803	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	-
	11.890.688	**10.292.265**
In foreign currencies		
Cash on hand	1.079.670	1.188.011
Other monetary assets in foreign currency	-	-
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	**24.641.261**	**20.774.027**

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 76/2018). Pursuant to the previously mentioned Decision, the obligatory reserve is to be calculated at the rate of 5% on the average balance of RSD liabilities maturing within 2 years, and at the rate of 0% on the portion of the RSD liabilities with maturities of over 2 years during a calendar month.

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

The obligatory RSD reserve balance that had to be maintained from 18 December 2018 to 17 January 2019 amounted to 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, nos. 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 obligatory foreign currency reserve balance that had to be maintained from 18 December 2018 to 17 January 2019 amounted to 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.

19. DERIVATIVE RECEIVABLES

		In RSD '000
	2018	**2017**
In RSD		
Financial assets at FV through profit and loss		
– FV of derivatives 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 derivatives 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

In RSD '000

	2018	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)	8.742.547	-
– bonds (AFS)	-	5.483.553
Equity securities		
– shares in equity (FVTPL)	28.748	-
– shares in equity (AFS)	-	28.804
	22.806.576	**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	**34.905.407**	**32.293.269**
Minus: Impairment allowance (FVTPL)	(13.897)	(45.424)
Balance as at 31 December	**34.891.510**	**32.247.845**

In addition to securities intended for trading, all securities listed in the table above were allocated to the 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:

In RSD '000

	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 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

In RSD '000

	2018			2017		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	-	489	**489**	-	7.236	**7.236**
Deposits	700.243	-	**700.243**	-	-	**-**
	700.243	**489**	**700.732**	**-**	**7.236**	**7.236**
In foreign currency						
Foreign currency accounts	491.306	-	**491.306**	1.151.048		1.151.048
Loans	207.018	44.083	**251.101**	13.897	322.478	336.375
Deposits placed	4.728	-	**4.728**	709.981	-	709.981
Other placements	255.130	-	**255.130**	18.600	-	18.600
	958.182	**44.083**	**1.002.265**	**1.893.526**	**322.478**	**2.216.004**
Gross loans and receivables	**1.658.425**	**44.572**	**1.702.997**	**1.893.526**	**329.714**	**2.223.240**
Less: Impairment allowance			(2.636)			(12.687)
			(2.636)			**(12.687)**
Balance as at 31 December			**1.700.361**			**2.210.553**

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

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

a) Overview of loans and deposits by type of loan users and stages

In RSD '000

	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**	(2.124)	-	-	-	**(2.124)**
Insurance companies	95	151	-	-	**246**	(1)	(2)	-	-	**(3)**
Financial leasing	243	-	-	-	**243**	(1)	-	-	-	**(1)**
Foreign banks	(63)	-	-	-	**(63)**	-	-	-	-	-
	700.581	**151**	**-**	**-**	**700.732**	**(2.126)**	**(2)**	**-**	**-**	**(2.128)**
In foreign currency										
Financial leasing	251.101	-	-	-	**251.101**	(254)	-	-	-	**(254)**
Auxiliary activities in providing financial and insurance services	25.340	-	-	-	**25.340**	(33)	-	-	-	**(33)**
Foreign banks	725.824	-	-	-	**725.824**	(221)	-	-	-	**(221)**
	1.002.265	**-**	**-**	**-**	**1.002.265**	**(508)**	**-**	**-**	**-**	**(508)**
Balance as at 31 December 2018	**1.702.846**	**151**	**-**	**-**	**1.702.997**	**(2.634)**	**(2)**	**-**	**-**	**(2.636)**

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

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

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

In RSD '000

	Gross book value							
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 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 2018	**-**	**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 at 31 December 2018 and 31 December 2017:

In RSD '000

	2018	**2017**
Without defined maturity	517.129	1.173.812
Under 30 days	700.021	705.184
From 1 to 3 months	-	-
From 3 months to 12 months	441.275	13.961
Over a year	44.572	330.283
Balance as at 31 December	**1.702.997**	**2.223.240**

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

Changes in impairment allowances and provisions of financial assets

In RSD '000

	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	**11.126**	**2.433**	**2.692**	**641**	**2.674**	**(77)**	**(6.123)**	**2.634**
Banks in the country	2.098	2.117	2.020	-	-	(68)	(1)	2.126
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	(11)	(6.114)	32
Other credit and financing services	2	-	2	0	0	-	-	-
Foreign banks	272	117	2	578	736	-	(9)	220
Stage 2	**8**	**-**	**-**	**-**	**6**	**-**	**-**	**2**
Insurance companies	8	-	-	-	6	-	-	2
TOTAL	**11.134**	**2.433**	**2.692**	**641**	**2.680**	**(77)**	**(6.123)**	**2.636**

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.

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

22. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	2018			2017		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	2.464.469	30.505.580	**32.970.049**	2.234.464	23.109.007	**25.343.471**
Other placements	272.499	-	**272.499**	172.684	1.483	**174.167**
	2.736.968	**30.505.580**	**33.242.548**	**2.407.148**	**23.110.490**	**25.517.638**
Foreign currency						
Loans	10.320.621	97.479.604	**107.800.225**	8.345.517	73.729.282	**82.074.799**
Deposits placed	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	**13.556.550**	**127.985.184**	**141.541.734**	**11.177.985**	**96.888.226**	**108.066.211**
Less: Impairment allowance						
– Individual assessment			(928.023)			(1.930.488)
– Collective assessment			(2.220.274)			(1.995.670)
			(3.148.297)			**(3.926.158)**
Balance as at 31 December			**138.393.437**			**104.140.053**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

In RSD '000

	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	44.293	-	35	-	**44.328**	(1.345)	-	(35)	-	**(1.380)**
Other companies	2.930.341	369.480	48.145	-	**3.347.966**	(31.774)	(10.515)	(40.061)	-	**(82.350)**
Entrepreneurs	858.372	52.489	16.618	-	**927.479**	(6.867)	(4.273)	(10.318)	-	**(21.458)**
Public sector	805.573	(47)	-	-	**805.526**	(742)	-	-	-	**(742)**
Retail customers	26.074.985	1.231.471	598.309	34.692	**27.939.457**	(218.661)	(204.763)	(430.305)	(1.397)	**(855.126)**
Foreign entities	5.185	24	20	-	**5.229**	(94)	(1)	(18)	-	**(113)**
Farmers	58.479	7.386	89	-	**65.954**	(1.980)	(842)	(43)	-	**(2.865)**
Other customers	36.409	1.348	68.852	-	**106.609**	(403)	(12)	(62.424)	-	**(62.839)**
	30.813.637	**1.662.151**	**732.068**	**34.692**	**33.242.548**	**(261.866)**	**(220.406)**	**(543.204)**	**(1.397)**	**(1.026.873)**
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 2018	**133.673.381**	**5.679.757**	**1.894.780**	**293.816**	**141.541.734**	**(840.784)**	**(876.900)**	**(1.311.186)**	**(119.427)**	**(3.148.297)**

Bank evaluates all loans at amortized cost.

NOTES TO SEPARATE FINANCIAL STATEMENTS
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22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) Transfer of exposure to loans and receivables from customers between stages

	Gross book value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 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	6.497	2.150	-	-	348	-
Agriculture and food industry	10.725	76.591	-	-	-	-
Entrepreneurs	32.341	45.569	6.453	1	5.422	-
Manufacturing industry	18.157	165.413	2.309	-	1.705	-
Production and supply of electricity	129.217	97.527	-	-	-	-
Sector of other commitments	2.838	18.146	-	-	-	-
Retail	769.892	741.126	152.593	49.172	236.506	37.167
Trade	135.186	346.588	455	-	48.041	-
Services and tourism	2.969	1.478.509	13.754	-	764	-
Balance as at 31 December 2018	**1.107.822**	**2.971.618**	**175.564**	**49.173**	**292.786**	**37.167**

NOTES TO SEPARATE FINANCIAL STATEMENTS
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22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Maturity of loans and receivables to customers

Maturities of loan and receivables due from customers per outstanding maturity as at 31 December 2018 and as at 31 December 2017 are presented in the table below:

In RSD '000

	2018	**2017**
Without defined maturity	1.089.205	469.619
Under 30 days	517.378	204.101
From 1 to 3 months	1.201.336	749.236
From 3 to 12 months	10.748.631	9.755.029
Over a year	127.985.184	96.888.226
Balance as at 31 December	**141.541.734**	**108.066.211**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

Changes in impairment allowances and provision of financial assets

In RSD '000

	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 31 December 2018
Changes in impairment allowances of financial assets										
Impairment Stage 1	**980.537**	**492.395**	**365.310**	**757.097**	**1.278.445**	**(689)**	**4**	**(1.494)**	**256.380**	**840.466**
Public enterprises	15.385	8.228	2.561	-	21.932	-	-	(61)	14.004	13.062
Other companies	515.119	309.516	214.429	255.041	494.856	(510)	-	(1.332)	127.815	496.363
Entrepreneurs	12.855	10.551	2.920	20.432	34.750	-	-	(16)	6.718	12.870
Public sector	51.799	738	13.947	862	22.236	-	-	(81)	(4.906)	12.228
Retail customers	384.244	161.900	130.806	479.291	702.846	(179)	4	(1)	112.351	303.950
Foreign entities	87	-	-	671	581	-	-	-	169	346
Other customers	1.047	1.462	647	800	1.244	-	-	(2)	229	1.646
Impairment Stage 2	**771.343**	**226.373**	**135.365**	**402.015**	**214.543**	**3**	**37**	**9.651**	**(182.557)**	**876.882**
Public enterprises	64.560	-	-	7.018	199	-	-	3.402	174	74.954
Other companies	146.599	138.784	21.368	135.880	21.060	3	-	(139)	(60.333)	318.366
Entrepreneurs	10.848	4.223	2.479	3.961	2.116	-	-	(4)	(8.384)	6.049
Public sector	9.271	358	-	-	-	-	-	-	(9.271)	358
Retail customers	539.605	83.001	111.454	255.092	191.109	-	37	6.393	(104.365)	477.126
Foreign entities	170	-	-	0	-	-	-	-	(168)	3
Other customers	290	7	64	64	59	-	-	-	(210)	28
Impairment Stage 3	**1.321.151**	**569.136**	**202.624**	**482.760**	**243.332**	**(801)**	**619.467**	**5.338**	**(681)**	**1.311.480**
Other companies	248.146	380.748	101.817	-	-	(801)	134.548	(818)	18.889	409.799
Entrepreneurs	4.435	5.042	-	9.298	2.996	-	6.483	(2)	3.553	12.847
Retail customers	820.878	183.343	71.130	444.036	240.336	-	368.751	6.236	33.744	808.020
Foreign entities	22	3	-	-	-	-	-	-	(6)	20
Other customers	247.670	-	29.677	29.426	-	-	109.685	(78)	(56.861)	80.794
POCI	**148.307**	**5.229**	**40.260**	**176.294**	**441.516**	**(1.538)**	**30.149**	**(262)**	**303.364**	**119.469**
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	40	138	41
Retail customers	13.057	4.603	2	4.361	6.795	(1.538)	-	(29)	3.900	17.557
Other customers	499	-	499	4.014	142.130	-	-	-	138.116	-
TOTAL	**3.221.339**	**1.293.133**	**743.559**	**1.818.166**	**2.177.836**	**(3.025)**	**649.658**	**13.234**	**376.506**	**3.148.297**

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 (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 at 31 December 2018 and 31 December 2017, is significant for the following activities:

In RSD '000

	2018	2017
Trade	12.406.952	10.587.711
Manufacturing industry	15.344.868	13.816.128
Construction	12.864.187	10.341.175
Production and supply of el. energy	8.637.329	5.672.892
Services and tourism	17.918.933	12.074.663
Agriculture and food industry	5.804.316	2.272.155
Retail customers	63.609.954	47.432.489
Domestic and foreign banks and other financial institutions	1.702.997	2.223.240
Public sector	2.501.734	3.614.491
Non-resident corporate customers	96.073	91.946
Agricultural producers	261.011	224.723
Other customers	278.090	797.311
Entrepreneurs	1.818.287	1.140.527
Balance as at 31 December	**143.244.731**	**110.289.451**

23. INVESTMENTS IN SUBSIDIARIES

In RSD '000

	2018	2017
S – Leasing d.o.o Serbia -75% of share	93.560	93.560
Balance as at 31 December	**93.560**	**93.560**

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

NOTES TO SEPARATE FINANCIAL STATEMENTS
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24. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

In RSD '000

	Land and buildings	Equipment	Equipment acquired under finance lease	Investment property	Investments in progress	Total fixed assets	Intangible assets in progress	Intangible assets
Cost								
Balance as at 1 January 2017	**743.709**	**810.049**	**122.295**	**243.633**	**(1)**	**1.919.686**	**-**	**1.202.454**
Additions	-	3.878	(3.878)	-	527.446	527.445	-	-
Transfers	16.322	255.195	140.326	-	(506.282)	(94.439)	-	94.441
Disposal and retirement	(7.385)	(73.359)	(4.570)	(243.633)	-	(328.947)	-	(9.225)
Balance as at 31 December 2017	**752.646**	**995.763**	**254.173**	**-**	**21.163**	**2.023.745**	**-**	**1.287.670**
Additions	-	7.083	(7.083)	-	285.265	285.265	327.744	-
Transfers	34.947	113.213	70.571	-	(297.655)	(78.925)	-	78.929
Disposal and retirement	(11.102)	(38.891)	-	-	-	(49.993)	-	(447)
Balance as at 31 December 2018	**776.491**	**1.077.167**	**317.661**	**-**	**8.773**	**2.180.092**	**327.744**	**1.366.152**
Accumulated depreciation/amortisation								
Balance as at 1 January 2017	**262.295**	**589.787**	**12.899**	**11.216**	**-**	**876.197**	**-**	**923.609**
Depreciation (Note 14)	18.494	101.980	42.471	1.159	-	164.104	-	125.988
Disposal and retirement	(2.201)	(68.109)	(4.561)	(12.375)	-	(87.246)	-	(9.225)
Balance as at 31 December 2017	**278.588**	**623.658**	**50.809**	**-**	**-**	**953.055**	**-**	**1.040.372**
Rebooking	-	7.083	(7.083)	-	-	-	-	-
Depreciation (Note 14)	18.709	118.332	66.691	-	-	203.732	-	116.849
Disposal and retirement	(3.855)	(35.747)		-	-	(39.602)	-	(349)
Balance as at 31 December 2018	**293.443**	**713.326**	**110.417**	**-**	**-**	**1.117.185**	**-**	**1.156.872**
NET BOOK VALUE								
– 31 December 2018	**483.048**	**363.841**	**207.244**	**-**	**8.773**	**1.062.906**	**327.744**	**209.280**
– 31 December 2017	**474.058**	**373.246**	**202.220**	**-**	**21.164**	**1.070.689**	**-**	**247.298**

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

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

25. 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, classifed as assets intended for sale, at the lower of the following two amounts:

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

In RSD ’000

	2018	**2017**
Fixed assets intended for sale and assets from discounted operations	11.902	11.902
Balance as at 31 December	**11.902**	**11.902**

As at 31 December 2018, the Bank 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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

26. OTHER ASSETS

	2018	In RSD '000 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	29.582
– Other receivables	134.806	197.801
Non-financial assets:		
– Advances given	113	2.448
– Receivables from employees	3.506	694
– Receivables from prepaid taxes and contributions	727	725
– Inventories	69.447	69.091
– 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	126.133	166.108
	1.195.698	**1.053.880**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	6	-
– Trade receivables	18.631	29.749
– Other receivables from standard operations	15	24
– Other receivables	47.756	49.202
Non-financial assets:		
– Advances given	3.655	6.129
– 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
	171.834	**121.709**
Gross other assets	**1.367.532**	**1.175.589**
Less: Impairment allowance	(140.818)	(115.174)
Balance as at 31 December	**1.226.714**	**1.060.415**

Other financial assets are valued at amortized cost.

NOTES TO SEPARATE FINANCIAL STATEMENTS
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26. OTHER ASSETS (continued)

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

In RSD '000

	2018	2017
Balance at beginning of the year	46.522	186.242
Effects of transition to the new standard	15.265	-
New impairment allowances	58.772	68.211
Reversal for impairment allowance	(4.356)	(28.428)
Direct write-offs	(32.921)	(69.703)
FV adjustments	-	(2.140)
Foreign exchange difference	(11.459)	(107.660)
Balance of impairment allowances of financial assets as at 31 December	**71.823**	**46.522**
Balance of impairment allowances of non-financial assets as at 31 December	**68.995**	**68.652**
Balance as at 31 December	**140.818**	**115.174**

27. DERIVATIVE LIABILITIES

In RSD '000

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

28. DEPOSITS AND OTHER LIABILITIES DUE FROM BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

In RSD '000

	2018			2017		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	432.278	-	**432.278**	304.765	-	**304.765**
Deposits for approved loans	87	516	**603**	-	247	**247**
Specific purpose deposits	22.602	-	**22.602**	86.554	-	**86.554**
Other deposits	3.789.470	520.000	**4.309.470**	4.408.726	345.000	**4.753.726**
Borrowings	-	600.000	**600.000**	-	-	**-**
Total	**4.244.437**	**1.120.516**	**5.364.953**	**4.800.045**	**345.247**	**5.145.292**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	630.522	-	**630.522**	375.863	-	**375.863**
Deposits for approved loans	-	189.110	**189.110**	-	189.556	**189.556**
Specific purpose 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	-	41.184.587	**41.184.587**	-	29.698.233	**29.698.233**
Other financial liabilities	37.061	-	**37.061**	27.963	-	**27.963**
Total	**10.050.633**	**43.906.621**	**53.957.254**	**9.005.559**	**31.419.580**	**40.425.139**
Balance as at 31 December	**14.295.070**	**45.027.137**	**59.322.207**	**13.805.604**	**31.764.827**	**45.570.431**

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

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

		In RSD '000
	2018	**2017**
Central bank	1.091	1
Domestic banks	3.932.397	6.981.815
Insurance companies	3.010.514	2.647.290
Finance leasing companies	554.500	2.626.698
Auxiliary activities within financial services and insurance	4.953.979	3.207.703
Other crediting and financing service providers	26.459	2.855
Foreign banks	46.843.267	30.104.069
Balance as at 31 December	**59.322.207**	**45.570.431**

Deposits of foreign banks mostly relate to the deposit of Erste Group Bank AG, Austria in the amount of RSD 28.462.264 thousand and the deposit of the European Investment Bank in the amount of RSD 12.966.414 thousand.

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29. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD '000

	2018			2017		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	24.684.911	-	**24.684.911**	17.706.708	-	**17.706.708**
Savings deposits	593.007	766.430	**1.359.437**	532.109	542.425	**1.074.534**
Deposits placed for approved loans	182.118	730.609	**912.727**	237.930	189.160	**427.090**
Specific purpose deposits	4.040.575	18.750	**4.059.325**	2.829.348	18.750	**2.848.098**
Other deposits	10.201.291	5.220	**10.206.511**	6.926.343	7.359	**6.933.702**
Total	**39.701.902**	**1.521.009**	**41.222.911**	**28.232.438**	**757.694**	**28.990.132**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	44.155.303	-	**44.155.303**	34.154.483	-	**34.154.483**
Savings deposits	7.966.244	11.400.354	**19.366.598**	8.190.424	11.953.885	**20.144.309**
Deposits placed for approved loans	130.160	3.736.187	**3.866.347**	103.768	2.058.284	**2.162.052**
Specific purpose deposits	748.927	282.420	**1.031.347**	3.259.784	314.590	**3.574.374**
Other deposits	208.591	631.219	**839.810**	1.082.998	124.996	**1.207.994**
Borrowings	-	2.354.677	**2.354.677**	-	1.291.788	**1.291.788**
Other financial liabilities	373.221	-	**373.221**	456.996	-	**456.996**
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**

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

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

		In RSD '000
	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**

30. SUBORDINATED LIABILITIES

		In RSD '000
	2018	**2017**
In foreign currencies		
Subordinated liabilities	4.566.337	1.354.523
Balance as at 31 December	**4.566.337**	**1.354.523**

Balance of subordinated borrowings as at 31 December 2018 and 31 December 2017 is presented in more detail in the table below:

						In RSD '000
Creditor	**Currency**	**Loan amount**	**Maturity**	**Interest rate**	**2018**	**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	-
Balance as at 31 December		**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 as at 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 of five years.

The Bank may include subordinated liabilities in its supplementary capital (Note 36.9), 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 Bank's request as at 7 October 2011.

On the basis of the Transfer and Transfer Agreement dated 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 Bank 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.

30. SUBORDINATED LIABILITIES (continued)

The Bank 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 Bank are fulfilled. The National Bank of Serbia, the Banking Supervision Department, submitted such approval on 11 October 2018, and based on the Bank's request of dated 24 August 2018.

31. PROVISIONS

		In RSD '000
	2018	**2017**
Provisions for losses per off-balance sheet items (a)	240.457	326.073
Provisions for long-term employee benefits (b):		
– retirement benefits	75.784	75.507
– jubilee awards	110.538	108.938
Provisions for litigations (c)	227.421	175.183
Other long-term provisions	-	67.041
Balance as at 31 December	**654.200**	**752.742**

Changes in the provisions of off-balance sheet items

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

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

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

(b) The Bank also formed provisions for long-term employee benefits that include provisions for legal 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 Bank also formed provisions for litigations involving the Bank as a defendant, where the Bank's expert team expects negative outcomes.

31. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

In RSD '000

	2018	2017
Provisions for losses per off-balance sheet exposures		
Balance at beginning of the year	326.073	277.482
Charge for the year (Note 10(a))	149.162	2.485.814
Reversal of unused provisions (Note 10(a))	(241.881)	(2.430.790)
Other movements	7.102	(6.433)
Total	**240.457**	**326.073**
Provisions for other long-term employee benefits		
Balance at beginning of the year	184.444	186.174
Interest expenses and current service costs	21.994	21.405
Benefits paid during the year	(16.827)	(22.323)
Actuarial losses/(gains) on jubilee awards	2.543	10.226
Actuarial losses/(gains) on retirement benefits	(5.832)	(11.038)
Total	**186.322**	**184.444**
Provision for litigation		
Balance at beginning of the year	175.183	164.287
Charge for the year (Note 16)	69.000	20.209
Used provision during the year	(16.762)	(9.313)
Total	**227.421**	**175.183**
Other long-term provisions		
Balance at beginning of the year	67.042	42.700
Charge for the year	(35.927)	51.971
Used provision during the year	(31.115)	(27.629)
Total	**-**	**67.042**
Balance as at 31 December	**654.200**	**752.742**

31. 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.

	In RSD '000
Present value of employee benefits as at 31 December 2017	**184.444**
Cost of services	
a. Current service cost	15.093
b. Past service cost	-
c. Interest costs	6.901
d. Payments	(16.827)
Actuarial gains (-) / losses (+) for jubilee awards arising from:	
a. Change in demographic assumptions	1.171
b. Change in financial assumptions	1.372
c. Change in experiential assumptions	-
Actuarial gains (-) / losses (+) for severance payments arising from:	
a. Change in demographic assumptions	(6.928)
b. Change in financial assumptions	1.096
c. Change in experiential assumptions	-
Present value of employee benefits as at 31 December 2018	**186.322**

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31. 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 1	235.603	89.147	68.357	38.887	140.546	(132)	1.818	156.420
Stage 2	32.499	4.178	15.418	6.509	13.584	(15)	(3.937)	10.232
Stage 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 Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 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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32. OTHER LIABILITIES

		In RSD '000
	2018	**2017**
In RSD		
Non-financial liabilities:		
Trade payables	4.281	547
Advances received	4.043	4.105
Liabilities for taxes, contributions and other duties payable	77.205	74.083
Accrued expenses and deferred revenue:		
– accrued liabilities for unused annual leaves	30.245	21.078
– other accruals	125	15.936
– accrued liabilities for MBU processing	12.464	13.753
– accrued expenses	58.912	117.044
– other accruals	369.797	366.291
Liabilities to retailers for POS terminals	22.096	51.748
Liabilities for termination of RSD accounts	21.964	21.685
Obligations from forcibly sold shares synergy - natural persons	25.899	24.414
Other liabilities	155.853	173.177
Total	**782.884**	**883.861**
In foreign currencies		
Financial liabilities:		
Liabilities for unpaid amounts for leased fixed assets	169.995	163.819
Non-financial liabilities:		
Commitments and Fees	60	60
Liabilities towards suppliers	-	5.734
Advances received	11.441	10.634
Accrued expenses and deferred revenue:		
– other accruals	115.493	36.485
Other liabilities for nostro payments - retail	11.310	27.937
Other liabilities	107.993	27.417
Total	**416.292**	**272.086**
Balance as at 31 December	**1.199.176**	**1.155.947**

Other financial liabilities are valued at amortized cost.

33. EQUITY

(a) Structure of the Bank's Equity

The total equity structure of the Bank is presented below:

		In RSD '000
	2018	**2017**
Share capital - ordinary shares /i/	10.040.000	10.040.000
Share premium /ii/	124.475	124.475
Reserves from profit /iii/	10.036.645	7.679.824
Revaluation reserves /iv/	512.198	418.024
Profit for the year	2.918.483	2.632.240
Balance as at 31 December	**23.631.801**	**20.894.563**

33. EQUITY (continued)

/i/ Share Capital

As at 31 December 2018 the Bank's subscribed and paid in capital comprised of 1.004.000 ordinary shares with the par value of RSD 10.000 per share (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% as at 31 December 2018. The shareholder structure of the Bank as at 31 December 2018 is presented below:

Shareholder	Number of shares	In %
EGB CEPS HOLDING GMBH	742.960	74,00
Steiermärkische Bank und Sparkassen AG, Grac	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 dated 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, which as at 31 December 2018 amounted to RSD 512.198 thousand (31 December 2017: RSD 418.024 thousand), were formed as a result of the decrease in the value of investments in securities available for sale at market value, adjusted for effects of deferred taxes based on the revaluation of these securities and the adjustment of liabilities based on actuarial calculation in accordance with IAS 19.

33. EQUITY (continued)

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

Performance indicators	**Prescribed**	**31.12.2018.**	**31.12.2017.**
1. Equity	Minimum EUR 10 million	EUR 210.633.447	EUR 168.865.743
2. Capital adequacy	Minimum 8%	17,78	18,14
3. Basic Capital adequacy	Minimum 6%	15,02	17,62
4. Basic Share capital adequacy	Minimum 4,5%	15,02	17,62
5. Investments of the Bank	Maximum 60%	4,46	5,58
6. Exposure to related parties	no limit	12,28	16,47
7. Large and largest possible loans in relation to capital	Maximum 400%	124,11	100,75
8. Liquidity:			
– 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%	175,30	154,97
10. Foreign exchange risk indicator	Maximum 20%	2,55	4,26
11. Exposure of the Bank to a group of related parties	Maximum 25%	16,54	21,26
12. Exposure of the Bank to a person related to a bank	no limit	5,49	9,42
13. Bank's investments in non-financial entities	Maximum 10%	0,11	0,13

34. OFF-BALANCE SHEET ITEMS

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

In RSD ’000

	2018	2017
Operations on behalf of third parties (a)	617.999	640.935
Guarantees and other irrevocable commitments (b)	52.151.249	37.230.852
Other off-balance sheet positions	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) Operations on behalf of third parties

In RSD ’000

	2018	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 thousand and long-term loans to agricultural producers in the amount of RSD 7.573 thousand.

(b) Guarantees and other irrevocable commitments

In RSD ’000

	2018	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 sheet items	505.121	653.801
Total	**12.976.568**	**12.049.058**
In foreign currency		
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
Letter of credit	404.196	187.855
Other off-balance sheet items	1.301.416	1.602.927
Total	**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, multi-purpose framework loans and other irrevocable commitments.

34. OFF-BALANCE SHEET ITEMS (continued)

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

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

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

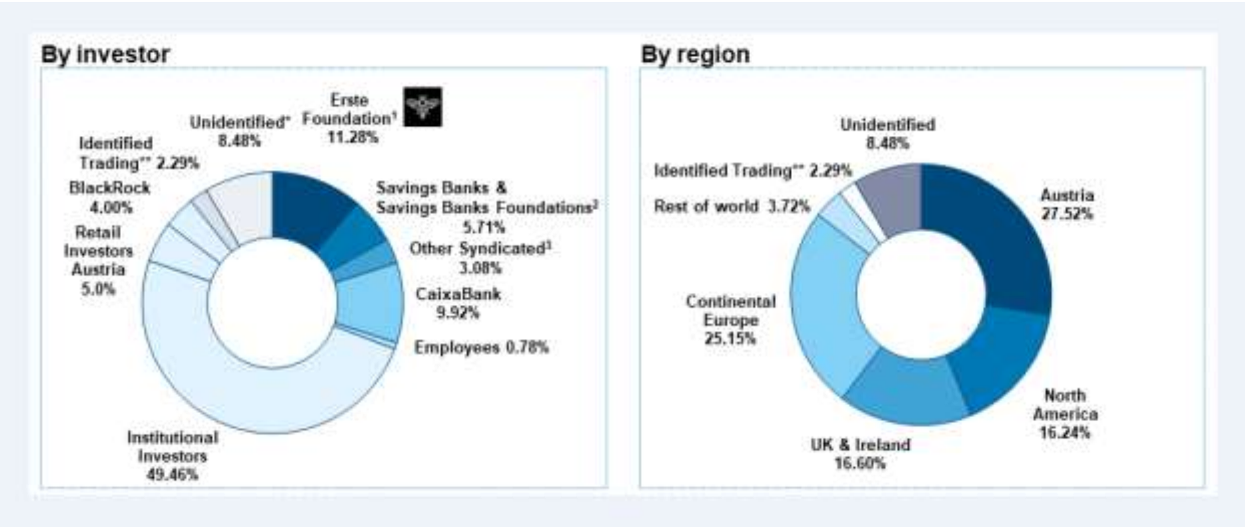
35. RELATED PARTY DISCLOSURES

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

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

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

Shareholder structure of Erste Group is as follows:



35. RELATED PARTY DISCLOSURES (continued)

a) Balance as at 31 December 2018 and 31 December 2017, as well as income and expenses during the year, arising from transactions with legal entities within the Erste Group, are presented in the following tables:

In RSD '000

	2018		2017	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Assets				
Financial assets at fair value through profit and loss held for trading	11.394	-	12.842	-
Loans and receivables from banks and other financial organisations	472.578	209.121	1.099.550	12.846
Loans and receivables due from customers	-	43	-	153
Investments in subsidiaries	-	93.560	-	93.560
Other assets	65.509	27.461	4.663	30.833
Balance as at 31 December	**549.481**	**330.186**	**1.117.055**	**137.392**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	84.446	-	40.956	-
Deposits and other liabilities due to banks and other financial organizations	28.462.572	197.360	16.359.513	143.282
Deposits and liabilities due to customers	-	123.558	-	51.913
Subordinated liabilities	4.566.337	-	1.354.523	-
Provisions	108	620	191	149
Other liabilities	64.171	169.282	1.632	199.218
Balance as at 31 December	**33.177.634**	**490.820**	**17.756.814**	**394.561**
Off-balance sheet items				
Guarantees and other sureties issues	972.578	187.038	1.038.214	227.487
Irrevocable commitments	-	32.621	-	2.904
Other off-balance sheet items	14.689.057	828.019	10.323.119	653.012
Balance as at 31 December	**15.661.635**	**1.047.678**	**11.361.333**	**883.403**

35. RELATED PARTY DISCLOSURES (continued)

In RSD '000

	2018		2017	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Interest income	5.718	1.268	16.154	2.490
Interest expenses	(431.220)	(6.466)	(287.057)	(4.947)
Fee and commission income	42.839	28.381	44.456	15.446
Fee and commission expenses	(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	2.750	-	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	-	359	-
Net loss on impairment of financial assets not valued at FV through profit and loss	-	(114)	-	(9.882)
Other operating income	-	24.830	-	24.980
Other income	2.310	10.035	5.932	6.883
Other expenses	(139.564)	(667.692)	(129.739)	(637.775)

As at 31 December 2018 and 31 December 2017, placements to related legal entities 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 Bank 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 favourable conditions, and to the bank the realization of income from fees for these services. In cross-border loans, the Bank is solely an agent and is not exposed to credit risk.

35. RELATED PARTY DISCLOSURES (Continued)

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

In RSD ’000

	Balance as at 31 December 2018	**Income/ (expense) 2018**	**Balance as at 31 December 2017**	**Income/ (expenses) 2017**
Current account overdrafts, credit cards and consumer loans	1.473	186	2.535	165
Housing loans	63.303	3.538	70.159	3.476
Accrued fees	(77)	-	(83)	-
Other loans and receivables	249	56	70	51
Total impairment allowances	(21)	132	(150)	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 Board of Directors’ members (stated in gross amounts), during 2018 and 2017, are presented in the table below:

In RSD ’000

	31.12.2018.	**31.12.2017.**
Salaries and benefits of the Management Board members	5.618	5.818
Salaries and benefits of the Executive Board members	124.587	113.788
Accrued income of the Executive Board members	92.302	67.041
Total	**222.507**	**186.647**

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.

36. RISK MANAGEMENT

36.1. Introduction

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

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

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

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

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

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

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

Management Board and Executive Board

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

Assets and Liabilities Management Committee (ALCO)

Assets and Liabilities Management Committee (ALCO) monitors the bank's exposure to risks arising from the structure of its balance sheet liabilities and receivables and off-balance sheet items, proposes management measures for management on primarily, interest rate risk, liquidity risk and foreign exchange risk, and performs other activities determined by the Bank's acts.

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

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Non-financial Risk Management Committee

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

Asset and Liability Management Unit

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

Internal Audit

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

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

Risk management and reporting

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

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

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Risk management and reporting (continued)

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

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

The risk management function, set up in the form of separate organizational units, functionally and organisationally separate from the risk-taking activities of the Bank, is responsible for the risk management system at the Bank. Bearing in mind the diversity of areas covered, and in order to perform their role more effectively, the risk management function is divided between the Credit Risk Management Department, the Strategic Risk Management Department, the Portfolio and Capital, and the Business Compliance and Security Management Service.

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:

- Directorate for risk management of legal entities;
- Directorate for managing the risks to the residents;
- Directorate for restructuring and collection of placements.

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 the Bank is or may be exposed to.

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

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

36. RISK MANAGEMENT (Continued)

36.2. Credit Risk

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

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

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

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

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

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

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

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

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 in next 4 categories of risk:

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

Management's attention – Clients with hardly satisfactory or not satisfactory financial situation. Maintaining credit position is very unlikely in middle term. Negative quality criteria are present. Client from retail sector with limited savings or probable to have problems in payment which set off reminders for early collection of receivables. 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 have recorded one or more criteria for the activation of default status, in accordance with the definition of precisely prescribed by the internal acts of the Bank and Erste Group AG: uncertain collection, late payment with a material bearing exposure for more than 90 days, the restructuring that caused the loss to the Bank, the realization of a credit loss or the initiation of bankruptcy proceedings. In order to determine the default settlement status, the Bank applies an approach at the client level, including Retail clients; if the client is in the status of default of one product, then the other products of that client are classified as problematic receivables.

Monitoring and control of credit risk

Monitoring of credit risk

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Monitoring and control of credit risk (continued)

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

Early Warning Signals

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

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

Default status

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

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

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Default status (continued)

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

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

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

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

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

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

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

Receivables write-off

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

In addition, the Bank in accordance with the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets of the Bank "Official Gazette of the Republic of Serbia", no. 77/2017 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 favour of impairment of the value of 100% of its gross carrying amount.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with balance sheet items as at 31 December 2018 is presented in the following table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	**Accumulated allowance for impairment / provisions**	**Net value**	**Assets not exposed to credit risk**	**Balance sheet**
Cash and funds at Central Bank	16.671.146	-	**16.671.146**	7.970.115	**24.641.261**
Derivative receivables	181.204	-	**181.204**	-	**181.204**
Securities	34.905.406	13.896	**34.891.510**	-	**34.891.510**
Loans and receivables from banks and other financial organizations	1.702.997	2.636	**1.700.361**	-	**1.700.361**
Loans and receivables from customers	141.541.734	3.148.297	**138.393.437**	-	**138.393.437**
Investments in subsidiaries	-	-	-	93.560	**93.560**
Intangible assets	-	-	-	537.025	**537.025**
Properly, plant and equipment	-	-	-	1.062.904	**1.062.904**
Current tax assets	-	-	-	173.326	**173.326**
Deferred tax assets	-	-	-	18.809	**18.809**
Non-current assets held for sale and discontinued operations	-	-	-	11.902	**11.902**
Other assets	902.898	83.132	**819.766**	406.948	**1.226.714**
Balance sheet	**195.905.385**	**3.247.961**	**192.657.424**	**10.274.589**	**202.932.013**
Guarantees and warranties	15.104.103	125.850	**14.978.253**	-	**14.978.253**
Assumed contingent liabilities	37.047.146	114.563	**36.932.583**	-	**36.932.583**
Other off-balance exposure	-	-	-	229.784.520	**229.784.520**
Off-balance sheet	**52.151.249**	**240.413**	**51.910.836**	**229.784.520**	**281.695.356**
Total exposure	**248.056.634**	**3.488.374**	**244.568.260**	**240.059.109**	**484.627.369**

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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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Overview of securities:

In RSD '000

	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	-	-		-	-	-	-	-	-
Securities	**10.828.561**	**14.018.367**	**10.058.479**	**-**	**-**	**-**	**13.897**	**17.699**	-	-	-	-
Of which: State bonds of the Republic of Serbia	10.828.561	13.890.871	9.774.867	-	-	**-**	13.897	17.699	-	-	-	-
Of which: Other	-	127.496	283.612	-	-	**-**	-	-	-	-	-	-
Total exposure	**10.828.561**	**14.018.367**	**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 / positive outlook

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD '000

	Assets exposed to credit risk				
	Gross value	**Accumulated allowance for impairment / provisions**	**Net value**	**Assets not exposed to credit risk**	**Balance sheet**
Cash and funds at Central Bank	9.293.751	-	**9.293.751**	11.480.276	**20.774.027**
Financial assets through profit and loss held for trading	11.539.464	-	**11.539.464**	-	**11.539.464**
Financial assets available for sale	12.488.599	6	**12.488.593**	-	**12.488.593**
Financial assets held to maturity	8.329.870	45.418	**8.284.452**	-	**8.284.452**
Loans and receivables from banks and other financial organizations	2.223.240	12.687	**2.210.553**	-	**2.210.553**
Loans and receivables from customers	108.066.211	3.926.158	**104.140.053**	-	**104.140.053**
Investments in subsidiaries	-	-	-	93.560	**93.560**
Intangible assets	-	-	-	247.290	**247.298**
Properly, plant and equipment	-	-	-	1.070.689	**1.070.689**
Non-current assets held for sale and discontinued operations	-	-	-	11.901	**11.901**
Other assets	756.671	57.331	**699.340**	361.075	**1.060.415**
Balance sheet	**152.697.806**	**4.041.600**	**148.656.206**	**13.264.799**	**142.916.481**
Guarantees and warranties	12.396.034	148.158	**12.247.876**	-	**12.247.876**
Assumed contingent liabilities	24.834.817	177.825	**24.656.992**	-	**24.656.992**
Other off-balance exposure	-	-	**-**	216.002.505	**216.002.505**
Off-balance sheet	**37.230.851**	**325.983**	**36.904.868**	**216.002.505**	**252.907.373**
Total exposure	**189.928.657**	**4.367.583**	**185.561.074**	**229.267.304**	**414.828.378**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Review of securities:

	Securities			
	Gross value	**Of which: impaired**	**Accumulated value adjustments**	**Of which: impairment losses on impaired receivables**
Financial assets at fair value through profit and loss for trading	**11.539.464**	**-**	**-**	**-**
Of which: State bonds of the Republic of Serbia	11.213.908	-	-	-
Of which: Other	325.556	-	-	-
Financial assets available for sale	**12.488.600**	**-**	**7**	**-**
Of which: State bonds of the Republic of Serbia	12.385.371	-	-	-
Of which: Other	103.229	-	7	-
Financial assets held to maturity	**8.329.869**	**-**	**45.417**	**-**
Of which: State bonds of the Republic of Serbia	8.329.869	-	45.417	-
Of which: Other	-	-	-	-
Total exposure	**32.357.933**	**-**	**45.424**	**-**

As at 31 December 2017, 98,7% of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the bank, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2017:
- Moody's Investors Service Ba3 / stable outlook
- Fitch Ratings BB / stable outlook
- Standard and Poor's BB / stable outlook

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as at 31 December 2018:

In RSD '000

	Credit quality of non-problematic receivables[2]				Value of collateral*		
	High	Medium	Low	Problematic receivables[3]	Non-problematic receivables	Problematic receivables	The impact of collateral on reducing the value of impairment*
Receivables from retail customers	**50.784.578**	**9.239.424**	**2.106.999**	**1.407.069**	**29.010.886**	**411.675**	**260.548,01**
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
Transactions and credit cards	534.743	145.417	31.733	13.214	796	-	18
Other receivables	1.052.014	349.692	78.923	50.532	73.758	-	784
Receivables from corporate clients	**55.754.682**	**16.761.302**	**1.857.073**	**746.771**	**18.013.177**	**347.040**	**309.474**
Large enterprises	14.337.001	559.918	-	-	4.412.124	-	22.185
Small and middle sized enterprises	28.480.689	10.226.911	146.934	416.083	9.753.703	195.046	165.109
Micro sized enterprises and entrepreneurs	10.664.809	5.322.890	1.623.031	289.502	3.271.351	137.806	106.834
Agriculture	81.728	122.907	87.108	41.151	102.575	14.187	15.346
Public enterprises	2.190.455	528.676	-	35	473.424	-	-
Receivables from other clients	**4.420.931**	**66.732**	**1**	**99.169**	**385.782**	**20.311**	**13.519**
Total receivables	**110.960.191**	**26.067.459**	**3.964.073**	**2.253.009**	**47.409.845**	**779.025**	**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 36.2 Credit risk.

[3] Problematic claims of the Bank include claims in the status of default (see "36.2 Credit Risk") and restructured claims "Non performing forbearance" (see 36.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD '000

	Credit quality of non-problematic receivables[4]				Value of collateral		
	High	**Medium**	**Low**	**Problematic receivables[5]**	**Non-problematic receivables**	**Problematic receivables**	**The impact of collateral on reducing the value of impairment***
Receivables from retail customers	**40.146.827**	**4.632.425**	**1.066.434**	**1.519.460**	**19.078.837**	**543.120**	**442.991**
Housing loans	23.266.017	946.128	352.993	794.528	18.899.076	540.434	436.875
Consumer and cash loans	14.893.934	3.322.491	628.129	600.733	99.035	1.350	1.148
Transactions and credit cards	652.117	104.604	20.339	20.190	1.533	136	53
Other receivables	1.334.759	259.202	64.974	104.009	79.193	1.200	4.915
Receivables from corporate clients	**51.008.159**	**3.228.377**	**478.990**	**1.481.793**	**15.077.819**	**919.975**	**625.636**
Large enterprises	8.390.880	61.810	-	416.685	4.178.991	415.599	144.502
Small and middle sized enterprises	32.941.138	741.422	100.633	676.790	8.044.391	238.113	286.108
Micro sized enterprises and entrepreneurs	8.840.751	901.425	207.318	330.450	1.303.339	247.385	175.525
Agriculture	101.503	95.154	37.516	57.867	127.498	18.877	16.516
Public enterprises	733.885	1.428.567	133.523	-	1.423.601	-	2.986
Receivables from other clients	**5.406.083**	**717.832**	**1**	**603.071**	**605.816**	**439.619**	**99.387**
Total receivables	**96.561.068**	**8.578.634**	**1.545.425**	**3.604.324**	**34.762.473**	**1.902.714**	**1.168.015**

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

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(a) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as at 31 December 2018:

In RSD '000

	Unimpaired receivables[6]		Impaired receivables[7]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**62.017.914**	**254.196**	**577.586**	**688.375**	**63.538.071**	**772.569**	**316.829**	**472.019**	**61.976.653**	**29.085.807**	**336.754**
Mortgage 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
Transactions and credit cards	710.442	1.763	284	12.618	**725.107**	6.801	267	8.697	**709.342**	796	-
Other receivables	1.432.104	50.399	2.250	46.409	**1.531.162**	19.199	2.137	31.426	**1.478.400**	73.758	-
Receivables from corporate clients	**74.160.978**	**213.721**	**710.418**	**34.711**	**75.119.828**	**939.559**	**523.366**	**21.785**	**73.635.118**	**18.014.819**	**345.398**
Large enterprises	14.875.285	21.634	-	-	**14.896.919**	74.602	-	-	**14.822.317**	4.412.124	-
Small and middle sized enterprises	38.753.126	103.050	407.977	6.464	**39.270.617**	335.197	321.580	3.999	**38.609.842**	9.755.345	193.405
Micro sized enterprises	17.540.021	70.710	263.401	26.101	**17.900.233**	423.850	175.525	16.421	**17.284.437**	3.271.351	137.806
Agriculture	276.965	14.778	39.039	2.112	**332.894**	17.894	26.262	1.331	**287.407**	102.575	14.187
Public enterprises	2.715.582	3.549	-	35	**2.719.165**	88.016	-	35	**2.631.115**	473.424	-
Receivables from other customers	**4.413.192**	**74.489**	**99.151**	**1**	**4.586.833**	**16.978**	**87.827**	**1**	**4.482.026**	**385.782**	**20.311**
Total exposure	**140.592.084**	**542.405**	**1.387.155**	**723.087**	**143.244.731**	**1.729.105**	**928.023**	**493.805**	**140.093.798**	**47.486.408**	**702.463**
By category of receivables											
Non-problematic receivables	140.451.075	540.647	-	-	**140.991.722**	1.707.010	-	-	**139.284.712**	47.409.845	-
of which: restructured	826.053	2.128	-	-	**828.181**	134.831	-	-	**693.350**	136.046	-
Problematic receivables	141.009	1.758	1.387.155	723.087	**2.253.009**	22.095	928.023	493.805	**809.086**	76.562	702.463
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	**140.592.084**	**542.405**	**1.387.155**	**723.087**	**143.244.731**	**1.729.105**	**928.023**	**493.805**	**140.093.798**	**47.486.408**	**702.463**

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD '000

	Unimpaired receivables[8]		Impaired receivables[9]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**45.779.073**	**220.681**	**649.285**	**716.107**	**47.365.146**	**779.698**	**341.182**	**454.711**	**45.789.554**	**19.140.755**	**481.202**
Mortgage loans	24.602.320	37.469	639.428	80.449	**25.359.666**	293.798	334.685	33.032	**24.698.150**	18.960.418	479.091
Consumer and cash loans	18.785.960	135.143	1.370	522.814	**19.445.288**	434.183	1.343	336.830	**18.672.931**	99.610	775
Transactions and credit cards	775.535	1.825	101	19.788	**797.249**	15.341	101	13.576	**768.231**	1.533	136
Other receivables	1.615.258	46.244	8.386	93.056	**1.762.943**	36.376	5.052	71.273	**1.650.243**	79.193	1.200
Receivables from corporate clients	**54.468.880**	**246.646**	**1.466.614**	**15.179**	**56.197.318**	**710.329**	**1.076.458**	**8.833**	**54.401.698**	**15.077.819**	**919.975**
Large enterprises	8.413.079	39.610	416.085	599	**8.869.375**	100.803	314.970	240	**8.453.362**	4.178.991	415.599
Small and middle sized enterprises	33.647.890	135.304	674.036	2.754	**34.459.985**	364.567	531.404	1.329	**33.562.685**	8.044.391	238.113
Micro sized enterprises	9.891.740	57.753	325.336	5.115	**10.279.944**	200.609	190.556	3.716	**9.885.062**	1.303.339	247.385
Agriculture	226.296	7.877	51.157	6.710	**292.040**	9.566	39.528	3.548	**239.398**	127.498	18.877
Public enterprises	2.289.874	6.101	-	-	**2.295.975**	34.783	-	-	**2.261.192**	1.423.601	-
Receivables from other customers	**6.025.522**	**98.394**	**603.070**	**1**	**6.726.987**	**54.784**	**512.848**	**1**	**6.159.354**	**605.816**	**439.619**
Total exposure	**106.273.474**	**565.721**	**2.718.969**	**731.287**	**110.289.451**	**1.544.811**	**1.930.488**	**463.545**	**106.350.606**	**34.824.391**	**1.840.796**
By category of receivables											
Non-problematic receivables	106.122.065	563.061	-	-	**106.685.127**	1.528.115	-	-	**105.157.012**	34.762.473	-
of which: restructured	305.860	2.354	-	-	**308.213**	26.501	-	-	**281.712**	115.711	-
Problematic receivables	151.409	2.659	2.718.969	731.287	**3.604.324**	16.696	1.930.488	463.545	**1.193.595**	61.918	1.840.796
of which: restructured	148.867	2.501	1.493.105	153.119	**1.797.591**	16.572	1.104.810	73.002	**603.208**	61.086	1.085.126
Total exposure	**106.273.474**	**565.721**	**2.718.969**	**731.287**	**110.289.451**	**1.544.811**	**1.930.488**	**463.545**	**106.350.606**	**34.824.391**	**1.840.796**

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

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

36. RISK MANAGEMENT (continued)

36.2 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:

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	**up to 30 days**	**from 31 to 60 days**	**from 61 to 90 days**	**over 90 days**	**Not in delay**	**up to 90 days**	**from 91 to 180 days**	**from 181 to 360 days**	**over 360 days**
Receivables from retail clients	**53.883.141**	**8.039.249**	**283.715**	**66.005**	**-**	**290.756**	**317.736**	**154.531**	**173.586**	**329.351**
Mortgage 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
Transactions and credit cards	691.412	2.839	14.770	3.185	-	2.651	1.673	3.815	3.391	1.372
Other receivables	1.072.872	393.487	12.089	4.055	-	5.739	11.325	12.892	13.118	5.583
Receivables from corporate clients	**72.758.121**	**1.598.396**	**17.504**	**678**	**-**	**253.611**	**104.442**	**36.194**	**74.409**	**276.473**
Large enterprises	14.886.797	10.122	-	-	-	-	-	-	-	-
Small and middle sized enterprises	37.842.370	1.013.805	-	-	-	250.767	97.522	22.052	4.047	40.052
Micro sized enterprises and entrepreneurs	17.067.771	530.016	12.266	678	-	795	6.919	12.437	69.952	199.399
Agriculture	242.053	44.452	5.238	-	-	2.048	-	1.671	410	37.021
Public enterprises	2.719.131	-	-	-	-	-	-	35	-	-
Receivables from other customers	**4.487.368**	**312**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**99.151**
Total exposure	**131.128.631**	**9.637.957**	**301.219**	**66.683**	**-**	**544.369**	**422.178**	**190.725**	**247.995**	**704.975**
By category of receivables										
Non-problematic receivables	131.051.085	9.602.953	271.828	65.855	-	-	-	-	-	-
of which: restructured	747.772	73.810	6.599	-	-	-	-	-	-	-
Problematic receivables	77.545	35.003	29.391	828	-	544.369	422.178	190.725	247.995	704.975
of which: restructured	63.520	34.276	29.388	828	-	229.206	173.423	27.730	79.325	50.824
Total exposure	**131.128.631**	**9.637.957**	**301.219**	**66.683**	**-**	**544.369**	**422.178**	**190.725**	**247.995**	**704.975**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD '000

	Unimpaired receivables					**Impaired receivables**				
	Not in delay	**up to 30 days**	**from 31 to 60 days**	**from 61 to 90 days**	**over 90 days**	**Not in delay**	**up to 90 days**	**from 91 to 180 days**	**from 181 to 360 days**	**over 360 days**
Receivables from retail clients	**38.971.635**	**6.702.158**	**248.316**	**77.619**	**25**	**259.536**	**284.437**	**162.348**	**180.104**	**478.968**
Mortgage loans	23.846.586	689.213	86.358	17.632	-	159.098	116.131	45.294	72.050	327.304
Consumer and cash loans	13.211.849	5.527.812	130.416	51.027	-	87.036	144.565	98.054	84.827	109.702
Transactions and credit cards	755.392	3.192	15.399	3.377	-	4.326	2.172	4.709	3.620	5.063
Other receivables	1.157.807	481.941	16.144	5.584	25	9.076	21.569	14.290	19.607	36.899
Receivables from corporate clients	**51.279.614**	**3.413.902**	**14.942**	**7.067**	**-**	**391.748**	**35.759**	**12.883**	**14.819**	**1.026.583**
Large enterprises	8.377.868	74.822	-	-	-	599	-	-	-	416.085
Small and middle sized enterprises	31.731.945	2.051.249	-	-	-	278.297	25.429	-	13.676	359.389
Micro sized enterprises and entrepreneurs	8.666.755	1.262.650	13.472	6.616	-	112.844	4.554	1.785	168	211.099
Agriculture	210.671	21.581	1.470	451	-	8	5.776	11.098	975	40.010
Public enterprises	2.292.375	3.600	-	-	-	-	-	-	-	-
Receivables from other customers	**6.097.582**	**26.333**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**603.070**
Total exposure	**96.348.831**	**10.142.393**	**263.259**	**84.687**	**25**	**651.286**	**320.196**	**175.231**	**194.924**	**2.108.621**
By category of receivables										
Non-problematic receivables	96.296.443	10.089.229	217.352	82.104	-	-	-	-	-	-
of which: restructured	237.970	67.156	2.942	146	-	-	-	-	-	-
Problematic receivables	52.389	53.164	45.907	2.583	25	651.286	320.196	175.231	194.924	2.108.621
of which: restructured	51.313	51.821	45.702	2.532	-	528.870	109.750	21.326	18.124	968.153
Total exposure	**96.348.831**	**10.142.393**	**263.259**	**84.687**	**25**	**651.286**	**320.196**	**175.231**	**194.924**	**2.108.621**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**63.538.071**	**1.561.417**	**1.407.069**	**499.895**	**810.941**	**2,21**	**411.675**
Housing loans	35.519.704	708.416	730.266	275.681	375.028	2,06	411.183
Consumers and cash loans	25.762.098	784.474	613.057	220.280	393.240	2,38	492
Transactions and credit cards	725.107	15.765	13.214	-	8.982	1,82	-
Other receivables	1.531.162	52.762	50.532	3.934	33.691	3,30	-
Receivables from corporate clients	**70.249.478**	**1.319.365**	**684.969**	**184.035**	**504.635**	**0,98**	**332.853**
Sector A	5.804.316	85.503	46.276	35.639	26.763	0,80	46.268
Sectors B, C and E	15.220.370	410.804	275.286	72.262	208.520	1,81	153.471
Sector D	8.636.316	145.703	-	-	-	-	-
Sector F	12.717.164	99.737	18.169	11.260	7.736	0,14	11.260
Sector G	12.399.231	348.895	323.052	60.354	249.703	2,61	108.320
Sector H, I and J	7.285.901	79.373	17.624	-	11.888	0,24	9.013
Sector L, M and N	8.186.180	149.350	4.563	4.521	26	0,06	4.521
Receivables from other clients	**9.457.183**	**270.151**	**160.971**	**4.591**	**128.347**	**1,70**	**34.498**
Total receivables	**143.244.731**	**3.150.933**	**2.253.009**	**688.521**	**1.443.923**	**1,57**	**779.025**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**47.365.146**	**1.575.591**	**1.519.460**	**463.530**	**812.589**	**3,21**	**543.120**
Housing loans	25.359.666	661.519	794.528	260.854	376.474	3,13	540.434
Consumers and cash loans	19.445.288	772.354	600.733	189.359	345.949	3,09	1.350
Transactions and credit cards	797.249	29.018	20.190	-	13.688	2,53	136
Other receivables	1.762.943	112.701	140.009	13.317	76.478	5,90	1.200
Receivables from corporate clients *	**52.468.778**	**1.660.685**	**1.399.026**	**1.018.873**	**1.026.716**	**2,67**	**892.591**
Sector A	2.272.157	95.599	68.457	47.243	46.998	3,01	19.474
Sectors B, C and E	13.654.361	611.286	622.143	621.159	454.343	4,56	551.544
Sector D	5.670.638	79.830	-	-	-	-	-
Sector F	10.188.389	179.217	119.801	119.208	113.363	1,18	25.697
Sector G	10.587.707	474.556	455.235	224.072	322.154	4,30	212.477
Sector H, I and J	3.660.781	62.814	3.425	-	2.811	0,09	1.948
Sector L, M and N	6.434.746	157.383	129.965	7.191	87.047	2,02	81.452
Receivables from other clients	**10.455.527**	**702.569**	**685.838**	**315.188**	**571.424**	**6,56**	**467.003**
Total receivables	**110.289.451**	**3.938.845**	**3.604.324**	**1.797.591**	**2.410.729**	**3,27**	**1.902.714**

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(a) Data on changes of problematic receivables in 2018:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables				Other changes	Gross value at year end	Net value at year end
			Total	of which: collected	of which: transferred to non-problematic category	of which: write-off			
Receivables from retail clients	1.519.460	751.397	916.352	343.259	194.314	378.779	52.564	1.407.069	596.128
Receivables from corporate and other clients	2.084.864	433.393	792.368	414.786	9.909	367.673	(879.949)	845.940	212.957
Total receivables	**3.604.324**	**1.184.790**	**1.708.720**	**758.045**	**204.223**	**746.452**	**(827.385)**	**2.253.009**	**809.086**

Data on changes of problematic receivables in 2017:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables				Other changes	Gross value at year end	Net value at year end
			Total	of which: collected	of which: transferred to non-problematic category	of which: write-off			
Receivables from retail clients	2.270.841	781.076	1.562.146	316.711	366.532	878.903	29.689	1.519.460	706.874
Receivables from corporate and other clients	4.295.936	98.933	2.408.933	892.478	165.393	1.351.063	98.929	2.084.864	486.724
Total receivables	**6.566.777**	**880.009**	**3.971.079**	**1.209.188**	**531.925**	**2.229.966**	**128.617**	**3.604.324**	**1.193.598**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Collateral and other means of protection against credit risk

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

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

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

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

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

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

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

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Basic types of credit protection instruments

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

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

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

Guarantees applied as immaterial credit protection are provided by:

- Government – as at 31 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 bank has no credit derivatives, thus they are not used as instruments of credit protection.

Exposures secured by mortgages on real estate

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

Other types of credit protection instruments

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

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

- pledge on movable property;
- pledge on receivables;
- pledge on share and bonds;
- other types defined in Bank's collateral catalogue.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on the type and value [10] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2018:

In RSD '000

	Means of collateral up to the receivables amount (as in KA4)			
	Deposits	**Residential real estate**	**Other real estate**	**Guarantees issued by the Government**
Receivables from retail clients	**36.299**	**29.153.427**	**232.835**	**-**
Household loans	9.528	29.096.641	166.179	-
Consumer and cash loans	25.974	31.196	18.488	-
Transactions and credit cards	796	-	-	-
Other receivables	-	25.590	48.168	-
Receivables from corporate clients	**2.145.490**	**620.412**	**15.120.891**	**473.424**
Large enterprises	-	-	4.412.124	-
Small and middle sized enterprises	1.549.212	320.516	8.079.022	-
Micro sized enterprises and entrepreneurs	596.278	291.554	2.521.325	-
Agriculture	-	8.343	108.419	-
Public enterprises	-	-	-	473.424
Receivables from other clients	**44.788**	**25.401**	**335.903**	**-**
Total exposure	**2.226.577**	**29.799.241**	**15.689.629**	**473.424**
Per category of receivables				
Non-problematic receivables	2.226.577	29.377.787	15.332.057	473.424
of which: restructured	-	131.917	4.129	-
Problematic receivables	-	421.453	357.572	-
Of which: restructured	-	135.694	117.355	-
Total receivables	**2.226.577**	**29.799.241**	**15.689.629**	**473.424**

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on the type and value [11] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2017:

In RSD '000

	Means of collateral*			
	Deposits	**Residential real estate**	**Other real estate**	**Guarantees issued by the Government**
Receivables from retail clients	**69.863**	**19.349.080**	**203.014**	-
Household loans	28.057	19.276.792	134.661	-
Consumer and cash loans	40.136	41.307	18.941	-
Transactions and credit cards	1.670	-	-	-
Other receivables	-	30.980	49.412	-
Receivables from corporate clients	**1.006.614**	**399.970**	**13.167.610**	**1.423.601**
Large enterprises	-	-	4.594.590	-
Small and middle sized enterprises	695.762	252.921	7.333.823	-
Micro sized enterprises and entrepreneurs	309.764	134.602	1.106.358	-
Agriculture	1.088	12.448	132.839	-
Public enterprises	-	-	-	1.423.601
Receivables from other customers	**134.313**	**77.207**	**833.916**	-
Total exposure	**1.210.789**	**19.826.257**	**14.204.540**	**1.423.601**
Per category of receivables				
Non-problematic receivables	1.210.653	19.208.700	12.919.521	1.423.601
of which: restructured	-	112.366	3.345	-
Problematic receivables	136	617.558	1.285.019	-
of which: restructured	-	181.246	964.967	-
Total receivables	**1.210.789**	**19.826.257**	**14.204.540**	**1.423.601**

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

During 2018, the Bank had acquired following means of collateral through collection of receivables:

		In RSD '000
	Residential real estate	**Total**
Means of collateral acquired through collection of receivables	12.073	12.073
Acquired during period	-	-
Sold during period	-	-
Gross value at period end	**12.073**	**12.073**
Accumulated allowance for impairment	12.073	12.073
of which: Allowance for impairment during period	-	-
Net value at the end of period	**-**	**-**

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

		In RSD '000
Means of collateral acquired through collection of receivables	**Residential real estate**	**Total**
Gross value at the beginning of period	**13.901**	**13.901**
Sold during period	1.828	1.828
Gross value at period end	**12.073**	**12.073**
Accumulated allowance for impairment	12.073	12.073
of which: Allowance for impairment during period	-	-
Net value at the end of period	**-**	**-**

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

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

LTV ratio

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

In 'RSD 000

Value of LTV ratio*	Value of receivables secured by mortgage as at 31 December 2018	Value of receivables secured by mortgage as at 31 December 2017
Below 50%	8.644.820	3.823.580
50% to 70%	8.665.114	5.736.344
70% to 90*	18.080.378	11.506.367
90% to 100%	975.676	643.842
100% to 120%	1.387.649	1.064.246
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 ratio	**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 receivables is secured.

Evaluation of impairment of financial assets

In accordance with IFRS 9, the Bank 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 Bank regularly evaluates the need and establishes impairment allowances due to credit losses in order to cover the expected economic losses from financial assets.

The Bank 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 Bank 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 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).

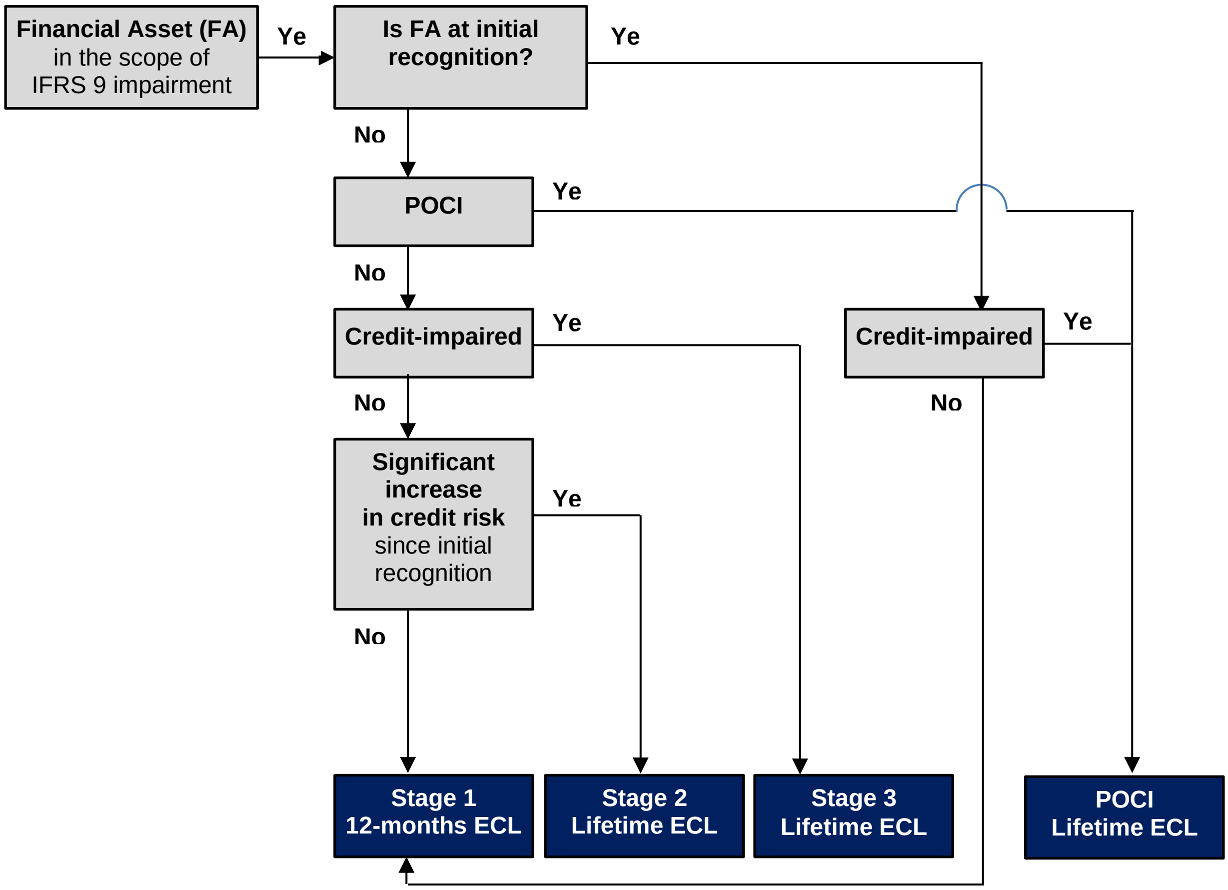
The objective of establishing an impairment allowances is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events [IFRS 9 5.5.4.] Accordingly, financial assets that are relevant 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.

36. RISK MANAGEMENT (continued)

36.2 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 Bank in accordance with the contract and the cash flows that the Bank 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 Bank expects to pay in full but later than the maturity of the contract.

The process of impairment of reserves due to credit losses:



36. RISK MANAGEMENT (continued)

36.2 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) 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 i.e. have default status 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 Bank 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 Bank 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** – Both performing and non- performing forbearance status are considered to be an indicator of significant increase in credit risk;
- **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.

36. RISK MANAGEMENT (continued)

36.2 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 May 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-the 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-the year since reporting date;
6) LGD_t is the estimate of the loss given default considered in the t-the year since reporting date;
7) D_{t-1} is the discount factor applied in the t-the 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-the year since reporting date which occurred due to drawn down of the undrawn loan commitment or due to payments under a financial guarantee.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

It is estimated as: EXP_t = Off-Bal_{t0} * CCF_t * c_t, where

i) 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 Bank (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:

$$\mathrm{ECL}_{\mathrm{LT,s}} = \max(0; \mathrm{GCA}_{\mathrm{t}_0} - \sum_{\mathrm{j}=\mathrm{t}_0}^{\infty} \frac{\mathrm{CF}_\mathrm{j}}{(1+\mathrm{EIR})^{(\mathrm{j}-\mathrm{t}_0)/365}})$$

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.

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

$$\mathrm{ECL}_{\mathrm{LT}} = \mathrm{p}_1 \cdot \mathrm{ECL}_{\mathrm{LT,1}} + \mathrm{p}_2 \cdot \mathrm{ECL}_{\mathrm{LT,2}} + \mathrm{p}_3 \cdot \mathrm{ECL}_{\mathrm{LT,3}}$$

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.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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";

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.).

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

- 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 Bank's clients is calculated for the segment of individuals and micro clients and applies to individuals as at 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 Bank 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 Bank 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:

		In RSD '000
	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
Commitments	272.132	(164)
Services and tourism	710.692	19.785
Balance at 31 December	**3.443.072**	**80.211**

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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes of impaired receivables in 2018:

In RSD '000

	Gross value at beginning of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	of which: impaired individually	Total	From which: impaired individually			
Receivables from retail clients	**1.365.392**	**572.985**	**68.632**	**215.222**	**76.720**	**(457.194)**	**1.265.961**	**477.112**
Household 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
Transactions and credit cards	19.890	11.294	86	5.561	-	(12.721)	12.902	3.938
Other receivables	101.442	39.556	83	18.631	5.054	(73.708)	48.658	15.095
Receivables from corporate clients	**1.481.793**	**314.566**	**282.519**	**76.931**	**76.516**	**(974.300)**	**745.129**	**199.978**
Large enterprises	416.685	-	-	48.378	48.378	(368.307)	-	-
Small and middle sized enterprises	676.790	271.256	266.545	11.064	11.064	(522.541)	414.441	88.863
Micro sized enterprises and entrepreneurs	330.450	41.347	15.974	17.079	17.074	(65.216)	289.502	97.557
Agriculture	57.867	1.963	-	410	-	(18.270)	41.151	13.558
Public enterprises	-	-	-	-	-	35	35	-
Receivables from other customers	**603.071**	-	-	-	-	**(503.919)**	**99.152**	**11.324**
Total receivables	**3.450.256**	**887.551**	**351.151**	**292.153**	**153.236**	**(1.935.412)**	**2.110.242**	**688.414**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes of impaired receivables in 2017:

In RSD '000

	Gross value at beginning of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	of which: impaired individually	Total	of which: impaired individually			
Receivables from retail clients	**2.106.188**	**546.784**	**115.355**	**312.445**	**64.810**	**(975.135)**	**1.365.392**	**569.499**
Household loans	777.836	164.668	115.355	106.447	64.810	(116.179)	719.877	352.160
Consumer and cash loans	1.050.140	315.139	-	169.519	-	(671.576)	524.184	186.010
Transactions and credit cards	54.330	14.054	-	7.413	-	(41.081)	19.890	6.212
Other receivables	223.883	52.923	-	29.066	-	(146.298)	101.442	25.117
Receivables from corporate clients	**2.938.652**	**69.774**	**60.325**	**257.692**	**247.514**	**(1.268.940)**	**1.481.793**	**396.501**
Large enterprises	32.997	-	-	-	-	383.688	416.685	101.475
Small and middle sized enterprises	1.787.066	49.355	48.975	77.254	73.859	(1.082.376)	676.790	144.054
Micro sized enterprises and entrepreneurs	724.674	2.870	-	19.153	12.565	(377.941)	330.450	136.178
Agriculture	71.599	17.549	11.350	195	-	(31.086)	57.867	14.791
Public enterprises	322.315	-	-	161.090	161.090	(161.225)	-	-
Receivables from other customers	**1.354.601**	**1**	**-**	**52.015**	**50.810**	**(699.516)**	**603.071**	**90.222**
Total receivables	**6.399.441**	**616.559**	**175.680**	**622.152**	**363.134**	**(2.943.591)**	**3.450.256**	**1.056.223**

NOTES TO SEPARATE FINANCIAL STATEMENTS
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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2018:

In RSD '000

	Accumulated allowance for impairment at beginning of year	Transition effects	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**1.575.591**	**127.777**	**1.703.368**	**2.754.945**	**2.567.668**	**(329.228)**	**1.561.417**
Household loans	661.516	51.724	713.240	808.584	791.343	(22.064)	708.416
Consumer and cash loans	772.357	69.087	841.444	1.823.772	1.654.238	(226.503)	784.474
Transactions and credit cards	29.018	930	29.948	50.324	54.347	(10.160)	15.765
Other receivables	112.701	6.037	118.737	72.265	67.739	(70.501)	52.762
Receivables from corporate clients	**1.795.620**	**(595.196)**	**1.200.424**	**2.596.005**	**2.381.902**	**70.183**	**1.484.710**
Large enterprises	416.013	(313.218)	102.794	223.262	388.602	137.147	74.602
Small and middle sized enterprises	897.300	(278.328)	618.972	1.463.520	1.304.922	(116.795)	660.775
Micro sized enterprises and entrepreneurs	394.882	(50.782)	344.100	817.633	596.329	50.391	615.795
Agriculture	52.642	1.971	54.613	63.666	54.722	(18.069)	45.487
Public enterprises	34.783	45.161	79.945	27.925	37.328	17.509	88.051
Receivables from other customers	**567.633**	**(238.949)**	**328.684**	**63.696**	**227.245**	**(60.329)**	**104.806**
Total exposure	**3.938.845**	**(706.369)**	**3.232.476**	**5.414.647**	**5.176.815**	**(319.374)**	**3.150.933**
Per category of receivable:							
Non-problematic receivables:	1.528.115	215.980	1.744.095	3.674.670	3.698.243	(13.512)	1.707.010
Of which: restructured	26.501	7.307	33.808	134.210	28.128	(5.058)	134.831
Problematic receivables:	2.410.729	(922.349)	1.488.381	1.739.977	1.478.573	(305.861)	1.443.923
Of which: restructured	1.194.383	(879.729)	314.655	412.009	205.915	(153.304)	367.444
Total exposure	**3.938.845**	**(706.369)**	**3.232.476**	**5.414.647**	**5.176.815**	**(319.374)**	**3.150.933**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD '000

	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**2.233.027**	**3.046.461**	**2.796.109**	**(907.787)**	**1.575.591**
Household loans	537.581	1.175.263	940.417	(110.912)	661.516
Consumer and cash loans	1.360.438	1.597.650	1.568.150	(617.582)	772.357
Transactions and credit cards	76.620	124.069	137.966	(33.705)	29.018
Other receivables	258.386	149.479	149.577	(145.588)	112.701
Receivables from corporate clients	**3.047.741**	**3.094.915**	**3.254.353**	**(1.092.683)**	**1.795.620**
Large enterprises	208.118	378.718	423.344	252.521	416.013
Small and middle sized enterprises	1.827.667	1.891.751	1.976.464	(845.655)	897.300
Micro sized enterprises and entrepreneurs	648.121	678.052	553.066	(378.225)	394.882
Agriculture	57.183	57.496	31.473	(30.564)	52.642
Public enterprises	306.651	88.898	270.006	(90.760)	34.783
Receivables from other customers	**1.120.228**	**771.700**	**929.630**	**(394.666)**	**567.633**
Total exposure	**6.400.996**	**6.913.076**	**6.980.092**	**(2.395.136)**	**3.938.845**
Per category of receivable:					
Non-problematic receivables:	1.680.217	4.420.160	4.726.920	154.658	1.528.115
Of which: restructured	19.739	45.891	57.620	18.491	26.501
Problematic receivables:	4.720.778	2.492.916	2.253.172	(2.549.794)	2.410.729
Of which: restructured	1.513.782	541.282	349.570	(511.111)	1.194.383
Total exposure	**6.400.996**	**6.913.076**	**6.980.092**	**(2.395.135)**	**3.938.845**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2018

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**3.470.905**	**3.408.932**	**115.660**	**73.069**
Household 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
Transactions and credit cards	121.438	121.327	3.269	2.313
Other receivables	50.603	48.349	6.510	3.439
Receivables from corporate clients	**2.569.117**	**2.007.551**	**291.905**	**40.538**
Large enterprises	452.422	286.939	141.290	13.734
Small and middle sized enterprises	1.327.685	1.146.957	126.981	22.154
Micro sized enterprises and entrepreneurs	695.484	513.304	21.283	4.090
Agriculture	19.395	15.763	2.268	560
Public enterprises	74.131	44.588	83	-
Receivables from other customers	**1.874.601**	**1.678.472**	**139.544**	**54**
Total receivables	**7.914.623**	**7.094.955**	**547.109**	**113.661**
Per category of receivable:				
Non-problematic receivables	7.358.907	6.972.116	-	-
Of which: restructured	16.750	14.801	-	-
Problematic receivables	555.716	122.839	547.109	113.661
Of which: restructured	43.574	32.777	36.472	25.170
Total receivables	**7.914.623**	**7.094.955**	**547.109**	**113.661**

Interest income from loans is recognized in accordance with IFRS 9, in effective interest rate, which represents rate that discounts estimated future payments through expected life cycle of loan to net present value of loan.

When determining the effective interest rate, all terms from contract related to that financial instrument are taken into account, but not future credit losses.

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 SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2017

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**3.014.753**	**2.752.249**	**289.679**	**51.159**
Household loans	790.550	727.825	68.687	10.499
Consumer and cash loans	1.968.255	1.802.786	178.355	33.373
Transactions and credit cards	148.193	129.360	20.878	2.350
Other receivables	107.755	92.279	21.759	4.937
Receivables from corporate clients	**2.266.480**	**1.948.653**	**161.789**	**10.156**
Large enterprises	336.495	321.852	14.225	-
Small and middle sized enterprises	1.306.541	1.207.841	85.342	6.702
Micro sized enterprises and entrepreneurs	519.227	319.295	50.457	2.354
Agriculture	30.163	19.830	11.670	1.100
Public enterprises	74.054	79.834	95	-
Receivables from other customers	**1.838.647**	**1.774.557**	**44.214**	**570**
Total receivables	**7.119.881**	**6.475.459**	**495.682**	**61.884**
Per category of receivable:				
Non-problematic receivables:	6.614.511	6.403.138	2.250	-
from which: restructured	16.830	14.788	478	-
Problematic receivables	505.370	72.322	493.432	61.884
from which: restructured	104.465	20.459	93.496	11.079
Total receivables	**7.119.881**	**6.475.459**	**495.682**	**61.884**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Required reserves for estimated losses

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

The required reserve for estimated losses on balance sheet assets and off-balance sheet items, is presented as a deduction on the Bank's equity in accordance with the decision on capital adequacy of banks, except in the case when the tern from clause 34a of the Decision of the National Bank of Serbia on the Classification of Balance Sheet Assets and Off-balance sheet items is satisfied ("Official Gazette RS", no. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016 и 101/2017 and 114/2017). In accordance with the stated above, the Bank does not classify required reserves for estimated losses as a deductible items of the capital. 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 Bank seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve extending the payment terms or any other modification to the original loan agreement provisions. Rescheduling or restructuring may be business rescheduling or forbearance as per EBA definition.

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

Forbearance represents restructuring caused by:

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

Performing forbearance – represents starting category within forbearance principle and its granted in case of defined deterioration of client's financial position, i.e. his creditworthiness registered delay in payment of over 30 days in last 3 months before submission of request to reschedule loan or other non-compliance with terms from contract. Minimal period of validity of this status is 2 years during which client has to repay min 6,7 % of total debt per year (applies to Corporate), and on the period end can't have matured debt.

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Restructured Loans **(continued)**

Non-performing forbearance is granted in following situations:

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

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

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Data on restructured loans as at 31 December 2018:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans		Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
			Total	from which: problematic receivables			
Receivables from retail clients	**63.538.071**	**1.561.417**	**813.431**	**499.895**	**255.885**	**1,28**	**243.998**
Housing loans	35.519.704	708.416	419.107	275.681	123.422	1,18	240.473
Consumers and cash loans	25.762.098	784.474	387.735	220.280	130.566	1,51	3.525
Transactions and credit cards	725.107	15.765	-	-	-	-	-
Other receivables	1.531.162	52.762	6.589	3.934	1.897	0,43	-
Receivables from corporate clients *	**70.249.478**	**1.319.365**	**694.730**	**184.035**	**242.520**	**0,99**	**145.097**
Sector A	5.804.316	85.503	58.976	35.639	30.818	1,02	58.976
Sectors B, C and E	15.220.370	410.804	551.525	72.262	150.750	3,62	70.340
Sector D	8.636.316	145.703	-	-	-	-	-
Sector F	12.717.164	99.737	11.260	11.260	1.287	0,09	11.260
Sector G	12.399.231	348.895	60.583	60.354	59.328	0,49	-
Sector H, I and J	7.285.901	79.373	-	-	-	0,00	-
Sector L, M and N	8.186.180	149.350	12.386	4.521	337	0,15	4.521
Receivables from other clients	**9.457.183**	**270.151**	**8.541**	**4.591**	**3.871**	**0,09**	**-**
Total receivables	**143.244.731**	**3.150.933**	**1.516.702**	**688.521**	**502.275**	**1,06**	**389.095**

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Data on restructured loans as at 31 December 2017:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans: Total	Gross restructured loans: Of which: problematic receivables	Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
Receivables from retail clients	**47.365.146**	**1.575.591**	**742.951**	**463.530**	**189.385**	**1,57**	**284.190**
Housing loans	25.359.666	661.519	442.664	260.854	114.017	1,75	283.080
Consumers and cash loans	19.445.288	772.354	280.277	189.359	67.433	1,44	1.109
Transactions and credit cards	797.249	29.018	-	-	-	-	-
Other receivables	1.762.943	112.701	20.010	13.317	7.934	1,14	-
Receivables from corporate clients *	**52.468.778**	**1.660.685**	**1.042.041**	**1.018.873**	**755.991**	**1,99**	**699.352**
Sector A	2.272.157	95.599	70.411	47.243	41.244	3,10	-
Sectors B, C and E	13.654.361	611.286	621.159	621.159	451.343	4,55	551.080
Sector D	5.670.638	79.830	-	-	-	-	-
Sector F	10.188.389	179.217	119.208	119.208	113.046	1,17	25.697
Sector G	10.587.707	474.556	224.072	224.072	148.919	2,12	115.384
Sector H, I and J	3.660.781	62.814	-	-	-	0,00	-
Sector L, M and N	6.434.746	157.383	7.191	7.191	1.440	0,11	7.191
Receivables from other clients	**10.455.527**	**702.569**	**320.813**	**315.188**	**275.508**	**3,07**	**278.381**
Total receivables	**110.289.451**	**3.938.845**	**2.105.804**	**1.797.591**	**1.220.884**	**1,91**	**1.261.923**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes on restructured loans as at 31 December 2018:

In RSD '000

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**742.951**	**395.125**	**203.457**	**(121.187)**	**813.431**	**557.547**
Household 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 enterprises	416.085	-	416.085	-	-	-
Small and middle sized enterprises	454.198	13.812	162.634	(176.408)	128.967	28.938
Micro sized enterprises and entrepreneurs	188.832	480.343	17.293	(85.269)	566.613	424.051
Agriculture	8.398	5.053	4.932	(828)	7.690	3.891
Public enterprises	-	-	-	-	-	-
Other clients	**295.341**	**-**	**295.341**	**-**	**-**	**-**
Total receivables	**2.105.805**	**894.333**	**1.099.743**	**(383.693)**	**1.516.702**	**1.014.427**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**733.777**	**273.968**	**154.729**	**(110.065)**	**742.951**	**553.567**
Household loans	444.292	130.404	93.689	(38.342)	442.664	328.648
Consumer and cash loans	262.263	134.037	56.734	(59.288)	280.277	212.844
Other receivables	27.223	9.527	4.305	(12.435)	20.010	12.075
Receivables from corporate clients	**1.592.923**	**55.765**	**526.574**	**(54.601)**	**1.067.513**	**296.327**
Large enterprises	-	-	-	416.085	416.085	101.115
Small and middle sized enterprises	1.180.141	10.281	330.165	(406.059)	454.198	86.318
Micro sized enterprises and entrepreneurs	237.845	45.484	35.183	(59.314)	188.832	104.648
Agriculture	13.711	-	-	(5.313)	8.398	4.246
Public enterprises	161.225	-	161.225	-	-	-
Other clients	**481.739**	-	-	**(186.398)**	**295.341**	**35.027**
Total receivables	**2.808.438**	**329.733**	**681.302**	**(351.064)**	**2.105.805**	**884.921**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2018:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**555.768**	**16.405**	**609.978**	**745.356**	**74.342**	**706**	**813.432**
Household 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 middle sized enterprises	66.301	74.113	128.967	71.312	15.774	-	128.967
Micro sized enterprises and entrepreneurs	565.533	489.097	543.046	58.471	-	-	566.613
Agriculture	5.323	490	5.647	7.200	-	2.058	7.690
Other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total receivables	**1.192.925**	**580.105**	**1.287.639**	**882.339**	**90.115**	**2.764**	**1.516.702**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2017:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**531.655**	**8.856**	**515.304**	**615.951**	**62.831**	**-**	**742.951**
Household 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**
Large enterprises	416.085	416.085	416.085	416.085	-	-	416.085
Small and middle sized enterprises	351.433	239.760	454.198	276.418	98.700	-	454.198
Micro sized enterprises and entrepreneurs	161.648	42.553	165.664	130.301	27.184	-	188.832
Agriculture	8.398	3.345	3.466	5.053	-	2.279	8.398
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.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loan concentration risk

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

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

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

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

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

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

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

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at during 2018:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and Western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**24.625.959**	**365.289**	**24.364.097**	**629.006**	**7.804.462**	**289.593**	**4.723.259**	**121.565**	**607.413**	**1.595**	**5.812**	**21**
Household 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	-
Consumers 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	-	-
Transactions and credit cards	138.638	2.657	419.509	6.666	100.812	2.661	48.333	1.187	4.601	41	-	-
Other receivables	311.147	12.765	736.878	23.205	268.805	10.950	140.472	3.531	23.268	60	60	21
Receivables from corporate clients *	**33.342.020**	**99.528**	**25.161.948**	**299.154**	**6.676.498**	**269.348**	**4.381.774**	**16.939**	**2.269**	**-**	**-**	**-**
Sector A	470.575	-	5.055.444	35.645	175.430	2	56.592	10.629	-	-	-	-
Sectors B, C and E	3.157.734	17.909	6.263.079	56.446	2.895.858	200.932	2.628.412	-	-	-	-	-
Sector D	5.698.595	-	244.235	-	2.044.539	-	648.947	-	-	-	-	-
Sector F	7.981.417	6.198	4.252.743	5.661	340.370	-	124.465	6.311	-	-	-	-
Sector G	4.772.514	67.393	5.612.401	196.676	1.026.814	58.983	662.180	-	2.269	-	-	-
Sector H, I and J	5.416.041	7.989	1.595.996	204	138.485	9.431	117.755	-	-	-	-	-
Sector L, M and N	5.845.143	39	2.138.050	4.524	55.001	-	143.423	-	-	-	-	-
Receivables from other clients	**4.722.125**	**83.367**	**3.144.141**	**50.707**	**422.642**	**23.835**	**185.471**	**3.062**	**-**	**-**	**821.834**	**-**
Total exposure	**62.690.104**	**548.183**	**52.670.185**	**978.867**	**14.903.602**	**582.775**	**9.290.503**	**141.567**	**609.683**	**1.595**	**827.645**	**21**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on concentration per sector and geographical region of exposure during 2017:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and Western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	17.198.075	410.904	18.808.593	674.483	6.210.297	298.001	3.168.624	134.647	453.989	1.401	6.106	24
Household loans	11.478.867	209.464	9.542.436	365.807	2.422.224	151.157	1.069.363	68.099	46.193	-	6.055	-
Consumers and cash loans	5.210.635	167.627	7.979.112	253.033	3.368.872	123.022	1.899.887	55.661	386.049	1.391	-	-
Transactions and credit cards	145.052	5.080	467.842	9.677	108.698	3.331	51.401	2.101	4.066	-	-	-
Other receivables	363.522	28.731	819.203	45.966	310.503	20.491	147.973	8.786	17.682	11	52	24
Receivables from corporate clients	24.439.136	633.126	16.516.621	470.216	6.312.160	115.254	3.801.005	180.430	830	-	-	-
Sector A	506.614	-	1.626.009	48.980	21.682	2	49.395	19.474	-	-	-	-
Sectors B, C and E	2.065.454	415.402	5.640.929	155.615	2.974.743	2.749	2.351.092	48.378	-	-	-	-
Sector D	2.697.882	-	271.985	-	2.032.087	-	668.683	-	-	-	-	-
Sector F	7.020.568	-	2.677.039	8.190	209.335	-	161.646	111.611	-	-	-	-
Sector G	4.967.537	133.149	3.832.045	210.092	840.996	111.994	491.065	-	830	-	-	-
Sector H, I and J	2.139.480	-	1.280.631	1.948	173.183	509	64.062	968	-	-	-	-
Sector L, M and N	5.041.601	84.575	1.187.984	45.390	60.135	-	15.062	-	-	-	-	-
Receivables from other clients	4.105.470	169.621	3.655.838	343.940	389.693	157.599	375.531	14.678	-	-	1.243.156	-
Total exposure	**45.742.681**	**1.213.651**	**38.981.053**	**1.488.639**	**12.912.151**	**570.854**	**7.345.160**	**329.756**	**454.819**	**1.401**	**1.249.263**	**24**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Credit-related Risks

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

Counterparty Risk

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

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

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

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

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

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

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

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

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

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

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

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

	31 December 2018	31 December 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

	31 December 2018	31 December 2017
Average during period	1,36	1,37
Highest	1,77	1,75
Lowest	1,09	1,13
On day	1,28	1,52

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

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

The Department for Market Risk Management and Liquidity Risk within the Strategic Risk Management Department is responsible for calculating the indicators. As at 31 December 2018 and 31 December 2017 Bank had Indicator of liquid assets coverage ratio above prescribed limit.

	31 December 2018	31 December 2017
Indicator of liquid assets coverage	175,30%	154,97%

In addition to calculating regulatory and internal indicators, the Bank 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 Bank 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 bank, 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 Bank has defined the internal limits for the NSFR indicator.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

Maturity Analysis of the Bank's Financial Liabilities

The following table shows the Bank's most significant financial liabilities by maturity, as at 31 December 2018 and 31 December 2017 and is based on contractual undiscounted repayments.

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

Analysis of financial liabilities by maturity

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2018
Liabilities per borrowings, deposits and securities	24.206.650	19.532.494	41.336.021	58.475.939	29.803.446	173.354.550
Subordinated liabilities	-	154.260	337.745	1.189.948	4.123.778	5.805.731
Total	**24.206.650**	**19.686.754**	**41.673.766**	**59.665.886**	**33.927.224**	**179.160.281**

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2017
Liabilities per borrowings, deposits and securities	20.807.263	20.135.366	42.909.488	45.666.407	11.989.544	141.508.069
Subordinated liabilities	-	96.978	286.911	1.076.577	-	1.460.466
Total	**20.807.263**	**20.232.344**	**43.196.400**	**46.742.985**	**11.989.544**	**142.968.536**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

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

In RSD '000

2018	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 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**

In RSD '000

2017	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2017
Contingent liabilities	804.154	498.480	2.291.039	4.421.168	4.363.004	220.085	12.597.930
Irrevocable commitments and letters of credit	9.187.841	136.759	674.876	3.482.742	7.922.839	3.227.864	24.632.921
Total	**9.991.995**	**635.239**	**2.965.915**	**7.903.910**	**12.285.843**	**3.447.949**	**37.230.851**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

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

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

The Bank has signed 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 Bank 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 Bank 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 Bank 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 Bank 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 28).

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36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

Liquidity Gap Analysis – Financial Assets and Liabilities

In RSD '000

	Up to 14 days	**15 days up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total 2018**
ASSETS							
Cash and cash funds held at Central Bank	24.641.261	-	-	-	-	-	24.641.261
Derivative receivables	10.160	-	-	4.843	35.510	130.691	181.204
Securities	297.860	354.642	1.747.479	2.930.145	26.497.787	3.063.597	34.891.510
Loans and receivables due from banks and other financial institutions	1.214.380	-	-	441.653	44.328	-	1.700.361
Loans and receivables due from customers	1.640.484	626.968	2.123.533	13.061.752	34.812.390	86.128.310	138.393.437
Other assets	159.093	1.140	2.512	10.534	5.936	2.933	182.148
Total assets	**27.963.238**	**982.750**	**3.873.524**	**16.448.927**	**61.395.951**	**89.325.531**	**199.989.921**
LIABILITIES AND EQUITY							
Derivative liabilities	766	-	-	2.106	20.797	71.849	95.518
Deposits and liabilities due to banks and other financial institutions and NBS	4.005.851	504.593	6.922.638	4.956.566	27.626.012	15.306.547	59.322.207
Deposits and other liabilities to 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 liabilities	5.100	-	10.251	46.849	107.795	-	169.995
Total liabilities	**85.804.577**	**6.403.120**	**12.938.963**	**18.871.514**	**31.717.379**	**21.628.718**	**177.364.271**
Total equity	**-**	**-**	**-**	**-**	**-**	23.631.801	**23.631.801**
Total liabilities and equity	**85.804.577**	**6.403.120**	**12.938.963**	**18.871.514**	**31.717.379**	**45.260.519**	**200.996.072**
Liquidity GAP as at 31 December 2018	**(57.841.339)**	**(5.420.370)**	**(9.065.439)**	**(2.422.587)**	**29.678.572**	**44.065.012**	
Liquidity GAP as at 31 December 2017	**(45.421.550)**	**(3.556.265)**	**(6.199.674)**	**(3.709.796)**	**30.761.355**	**30.596.004**	

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

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

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

The maturity mismatch is the result of a growth in the volume of demand deposits compared to the planned assets for up to 14 days. The Bank monitors maturity compliance using statistical patterns of deferred demand deposits at expected maturities.

36. RISK MANAGEMENT (continued)

36.4. Market Risks

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

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

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

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

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

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

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

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

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

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

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

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

Exposure monitoring is done on a daily basis.

VaR in RSD ’000	As at 31 December 2018	As at 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.

36. RISK MANAGEMENT (continued)

36.4. 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 Bank's Executive Board, on the proposal of the Strategic Risk Management Department, and Erste Group's Market Risk Committee.

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

36.4.1 Interest Rate Risk

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

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

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

The Bank 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 modelled by statistical methodology.

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1 Interest Rate Risk (continued)

The following table shows the bank's exposure to the interest rate risk (Repricing Gap) as at 31 December 2018. Assets, liabilities, and currency swaps as off-balance sheet items are categorized by the earlier of interest repricing date and maturity date.

In RSD '000

Category	Within a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over a year	Total non-interest bearing	Total
Cash	-	-	-	-	-	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 due from banks	5.700.000	-	-	-	-	-	5.700.000
Loans due from customers	74.245.683	34.890.678	11.667.031	2.184.172	15.460.464	-	138.448.028
Other assets	-	-	-	-	-	4.088.821	4.088.821
Total balance sheet assets	**94.706.215**	**36.439.353**	**11.667.031**	**2.765.513**	**38.117.715**	**19.236.185**	**202.932.012**
FX Swaps	3.437.353	-	-	-	-	-	3.437.353
Total assets	**98.143.568**	**36.439.353**	**11.667.031**	**2.765.513**	**38.117.715**	**19.236.185**	**206.369.365**
Liabilities to financial institutions	2.801.212	16.930.761	32.975.850	371.083	4.256.003	-	57.334.909
AVISTA deposits	6.166.699	12.333.399	18.500.098	8.221.458	31.117.184	-	76.338.838
Term deposits	11.421.065	7.049.944	6.706.379	10.746.361	6.048.302	-	41.972.051
Other liabilities	-	-	-	-	-	3.654.413	3.654.413
Equity	-	-	-	-	-	23.631.801	23.631.801
Total balance sheet liabilities and equity	**20.388.976**	**36.314.104**	**58.182.327**	**19.338.902**	**41.421.489**	**27.286.214**	**202.932.012**
FX Swaps	3.437.353	-	-	-	-	-	3.437.353
Total liabilities and equity	**23.826.329**	**36.314.104**	**58.182.327**	**19.338.902**	**41.421.489**	**27.286.214**	**206.369.365**
Net interest risk exposure as at 31 December 2018	**74.317.239**	**125.249**	**(46.515.296)**	**(16.573.389)**	**3.303.774)**	**(8.050.029)**	**-**
Net interest risk exposure as at 31 December 2017	**81.789.325**	**(23.483.146)**	**(32.193.708)**	**(15.097.176)**	**(4.174.417)**	**(6.853.736)**	**(12.858)**

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1 Interest Rate Risk (continued)

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

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

In RSD '000

Currency	Changes in percentage points	Income statement sensitivity 2018	Changes in percentage points	Income statement sensitivity 2017
Increase in percentage:				
RSD	1%	170.200	1%	161.123
EUR	1%	121.740	1%	341.201
Decrease in percentage:				
RSD	1%	(174.928)	1%	(164.677)
EUR	1%	(460.959)	1%	(409.916)

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

33.4.2. Foreign Exchange Risk

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

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

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

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

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

In 2018, the Bank continuously monitored the compliance of foreign exchange risk indicators, whereby the above indicator was at a level within the prescribed limit. At the end of each working day, the Bank's foreign currency exposure indicator was not more than 20% higher than the Bank's capital.

The following table shows the currencies in which the Bank has significant exposure as at 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.

Risk of changing foreign exchange rates

In RSD ‘000

Currency	Changes in currency rate (depreciation in %) 2018	Effect on profit and loss before taxes 2018	Changes in currency rate (depreciation in %) 2017	Effect on profit and loss before taxes 2017
EUR	2%	11.714	2%	16.511
CHF	2%	(127)	2%	285
USD	2%	307	2%	30

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36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

33.4.2. Foreign Exchange Risk (continued)

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

In RSD '000

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
ASSETS							
Cash and cash funds held at Central Bank	12.534.380	58.106	86.694	71.393	**12.750.573**	11.890.688	**24.641.261**
Derivative receivables	171.044	-	-	-	**171.044**	10.160	**181.204**
Securities	11.874.442	223.291	-	-	**12.097.733**	22.793.777	**34.891.510**
Loans and receivables due from banks and other financial institutions	755.088	50.647	13.214	182.808	**1.001.757**	698.604	**1.700.361**
Loans and receivables due from customers	104.973.672	403.556	800.534	-	**106.177.762**	32.215.675	**138.393.437**
Investments in subsidiaries	-	-	-	-	-	93.560	**93.560**
Intangible assets	-	-	-	-	-	537.025	**537.025**
Property, plant and equipment	-	-	-	-	-	1.062.904	**1.062.904**
Current tax assets	-	-	-	-	-	173.326	**173.326**
Deferred tax assets	-	-	-	-	-	18.809	**18.809**
Fixed assets held for sale and assets of discontinued operations	-	-	-	-	-	11.902	**11.902**
Other assets	84.937	11.844	2.610	-	**99.391**	1.127.323	**1.226.714**
Total assets	**130.393.563**	**747.444**	**903.052**	**254.201**	**132.298.260**	**70.633.753**	**202.932.013**
LIABILITIES AND EQUITY							
Derivative liabilities	94.752	-	-	-	**94.752**	766	**95.518**
Deposits and liabilities due to banks and other financial institutions and NBS	53.252.682	8.012	687.576	8.984	**53.957.254**	5.364.953	**59.322.207**
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	-	-			**-**	654.200	**654.200**
Current tax liabilities	-	-	-	-	**-**	252.560	**252.560**
Deferred tax liabilities	-	-	-	-	**-**	-	**-**
Other liabilities	251.039	52.699	1.452	-	**305.190**	893.986	**1.199.176**
Total liabilities	**125.601.402**	**2.675.692**	**2.168.752**	**464.990**	**130.910.836**	**48.389.376**	**179.300.212**
Total equity	-	-	-	-	-	23.631.801	**23.631.801**
Total liabilities and equity	**125.601.402**	**2.675.692**	**2.168.752**	**464.990**	**130.910.836**	**72.021.177**	**202.932.013**
Net foreign currency position as at:							
– 31 December 2018	**4.792.161**	**(1.928.248)**	**(1.265.700)**	**(210.789)**	**1.387.424**		
– 31 December 2017	**3.919.656**	**(1.175.651)**	**(861.410)**	**(138.101)**	**1.744.494**		

36. RISK MANAGEMENT (continued)

36.5. Bank’s Risk Concentration

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

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

During 2018, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its loans and receivables and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 33(b)) and with the internal limits.

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

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

36.6. Bank's Investment Risks

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

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

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

During 2018, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

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

36.7. Country Risk

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

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

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

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

36. RISK MANAGEMENT (continued)

36.8. Operational Risk

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

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

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

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

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

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

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

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

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

36.9. Capital Management

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

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

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

The Law on Banks and relevant decisions of the National Bank of Serbia stipulate that banks must maintain a minimum amount of capital of EUR 10 million in dinar equivalent according to the official middle exchange rate, an indicator of capital adequacy of at least 8%, an indicator of the capital adequacy of at least 6% and an indicator of the adequacy of the basic share capital of at least 4,5%, as well as to harmonize the scope and structure of its operations with the indicators of operations prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia" No. 45/2011, 94/2011, 119/2012, 123/2012 and 23/2013 - other decisions, 43/2013 and 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119/2017 & 76/2018) and the Decision on capital adequacy ("Official Gazette of the RS", no. 103/2016).

36. RISK MANAGEMENT (continued)

36.9. 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 %
- 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 Bank is also required to fulfil 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 bank's capital determines the method of calculating the capital of the Bank and the indicators of its adequacy. The total capital of the Bank consists of basic and supplementary capital and defined deductible items, while risky balance and off-balance sheet assets are determined in accordance with the prescribed risk weight for all types of assets.

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

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

The Framework for Integrated Risk and Capital Management as a concept established in the Bank, as its key component, has the Internal Capital Adequacy Assessment Process (ICAAP). This framework is defined to support the bank'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 Bank'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 Law on Banks and the Decision on Bank and Banking group Recovery Plans ("Official Gazette of the Republic of Serbia" No. 71/2015), the Bank regularly prepares and provides the National Bank of Serbia with the Recovery Plan, which represents the main pillar for preserving the financial resilience of the Bank, as well as achieving stability in situations of serious financial disturbances. In addition, the Bank, for the purpose of preparing the Plan for Restructuring and defining Minimum Capital Requirements and similar obligations of the Bank, 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).

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

In RSD '000

	31.12.2018.	31.12.2017.
Basic capital		
Basic share capital		
The amount of the basic share capital paid	10.040.000	10.040.000
Related emission premium with basic equity instruments	124.475	124.475
Profit from the current period that meets the requirements for inclusion in the share capital	870.617	1.442.454
Revaluation reserves and other unrealized gains	602.586	495.357
Unrealized losses	(90.388)	(77.334)
Other reserves	10.036.645	7.679.825
Additional value adjustments	(24.354)	(24.073)
Other intangible assets before deduction for related deferred tax liabilities	(537.025)	(247.298)
Total	**21.022.556**	**19.433.406**
Supplementary capital		
Subordinated obligations	3.873.180	572.575
	3.873.180	**572.575**
Capital:	**24.895.736**	**20.005.981**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	9.779.033	7.481.334
Capital requirement for price risk	161.078	177.449
Capital requirement for foreign exchange risk	50.741	68.222
Capital requirement for operational risk	1.175.138	1.084.684
Capital requirement for the risk of adjusting credit exposure	34.384	13.102
Adequacy of basic share capital	**15,02**	**17,62**
Adequacy of share capital	**15,02**	**17,62**
Capital adequacy	**17,78**	**18,14**

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

36. RISK MANAGEMENT (continued)

36.9. 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:

In RSD '000

	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)	2.102.256	1.943.341
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	**2.025.781**	**1.920.034**
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)	2.102.256	1.943.341
Investments in the basic share capital of entities in the financial sector in which the bank has significant investments	(93.560)	(93.560)
Remains up to the limit	**2.008.696**	**1.849.780**
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)	2.102.256	1.943.341
Deferred tax assets that depend on future profitability and arise from temporary differences	(109.197)	(62.018)
Remains up to the limit	**1.993.059**	**1.881.323**
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)	3.690.648	3.414.409
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	(202.757)	(155.578)
Remains up to the limit	**3.487.891**	**3.258.831**

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

In RSD '000

	31.12.2018.		31.12.2017.	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requirement**
Total risk assets	**140.004.668**	**11.200.373**	**110.309.893**	**8.824.791**
Risk-weighted exposure to credit risk	122.237.912	9.779.033	93.516.671	7.481.334
Standardized approach	122.237.912	9.779.033	93.516.671	7.481.334
IRB approach	-	-	-	-
Exposure to risk of settlement/delivery (except for free delivery)	-	-	-	-
Exposure to market risks	2.647.743	211.819	3.070.892	245.671
Exposure to operational risk	14.689.219	1.175.138	13.558.552	1.084.684
Exposure to the risk of adjusting credit exposure	429.794	34.384	163.778	13.102

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

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

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

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

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

In order to calculate the required reserve for estimated losses, the Bank deducts the estimated loss reserves according to the Decision of the National Bank of Serbia for the correction of the balance sheet assets and provisions for losses on off-balance sheet items disclosed at the expense of expenses in the income statement. All positive differences will represent the necessary reserve for estimated losses on balance sheet assets and off-balance sheet items. In accordance with the Decision on Capital Adequacy of the Bank, the required reserve for estimated losses is considered a deductible item of equity, except in cases when the condition from item 34a of the Decision on classification of balance sheet assets and off-balance sheet items of the bank ("Official Gazette of the Republic of Serbia" No. 94 / 2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017 and 114/2017). In accordance with the above, the Bank dated 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 Bank, 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 9,39% as at 31 December 2018.

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

36.9.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 Bank's capital is given in the following enclosures:

- PI-KAP form (APPENDIX 1) - detailed structure of regulatory capital of the Bank 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 Bank 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.

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

Appendix 1 – The form PI- KAP

Data on the Bank's capital position

(in thousand RSD)

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.	*of which: relevant share premium with the instruments referred to in item 1.1, i.e. the amount paid above par value of those instruments*	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	870.617	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 capital	-	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)	21.583.935	

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

Appendix 1 – The form PI- KAP

Data on the Bank's capital position

(in thousand RSD)

No	Item	Amount	DCA reference
	Common Equity Tier 1: elements		
9	Additional value adjustments (-)	(24.354)	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	(537.025)	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)

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

Appendix 1 – The form PI- KAP

Data on the Bank's capital position

(in thousand RSD)

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)	(561.379)	
29	Common Equity Tier 1 capital (difference between 8 and 28)	21.022.556	
	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)		

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

Appendix 1 – The form PI- KAP

Data on the Bank'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)	24.895.736	
52	Total risk-weighted assets	140.004.668	Section 3, paragraph 2,
	Capital adequacy ratios and capital buffers		
53	Common Equity Tier 1 capital ratio (%)	15,02	Section 3, paragraph 1, item 1)
54	Tier 1 capital ratio (%)	15,02	Section 3, paragraph 1, item 2)
55	Total capital ratio (%)	17,78	Section 3, paragraph 1, item 3)
56	Total requirements for capital buffers (%)	5,78	Section 433
57	Common Equity Tier 1 capital available for capital buffers coverage (%)	7,02	

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

36.9.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 Bank's capital

No	Instrument features	The share capital of the Bank	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna
1.	**Issuer**	Erste Bank a.d. 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	Supplementary capital instrument
3.	**Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated**	*Individual and group*	Individual and group	Individual and group
4.	**Instrument type**	*Ordinary shares*	Subordinated debt issued in the form of financial instrument	Subordinated debt issued in the form of financial instrument
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 recognized as supplementary capital which fulfil requirements in accordance with Decision on Capital Adequacy	Amount of 3.545.838 thousand RSD recognized as supplementary capital which fulfil 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	Liability – depreciated amount
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.	10.09.2028.
10.	**Issuer call subject to prior supervisory approval**	*No*	*No*	*No*
10.1.	**Optional call date, contingent call dates and redemption amount**	-	-	-
10.2.	**Subsequent call dates, if applicable**	-	-	-
	Coupons / dividends			

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

36.9.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 Bank's capital

No	Instrument features	The share capital of the Bank	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna
11.	Fixed or floating dividend/coupon	Variable	Variable	Variable
12.	Coupon rate and any related index		Referring to interest on subordinated loan	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	No discretion
14.2.	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretion	No discretion	No 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-cumulative*	*Non-cumulative*	*Non-cumulative*
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		-	-

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Bank with references to the positions of regulatory capital (Appendix 1)

(in thousand RSD)

Designation of item	Item	Balance sheet as disclosed in financial reports	Balance sheet under regulatory method and scope of consolidation
A	**ASSETS**		
A.I	Cash and assets with the central bank	24.641.261	24.641.261
A.II	Pledged financial assets	-	-
A.III	Derivative receivables	181.204	181.204
A.IV	Securities	34.891.510	34.891.510
A.V	Loans and receivables from banks and other financial organisations	1.700.361	1.700.361
A.VI	Loans and receivables from clients	138.393.437	138.393.437
A.VII	Change in fair value of hedged items	-	-
A.VIII	Receivables arising from hedging derivatives	-	-
A.IX	Investments in associated companies and joint ventures	-	-
A.X	Investments into subsidiaries	93.560	93.560
A.XI	Intangible assets	537.025	537.025
A.XII	Property, plant and equipment	1.062.904	1.062.904
A.XIII	Investment property	-	-
A.XIV	Current tax assets	173.326	173.326
A.XV	Deferred tax assets	18.809	18.809
A.XVI	Fixed assets intended for sale and assets of discounted operations	11.902	11.902
A.XVII	Other assets	1.226.714	1.226.714
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	202.932.013	202.932.013
P	**LIABILITIES AND EQUITY**		
PO	**LIABILITIES**		
PO.I	Derivative liabilities	95.518	95.518
PO.II	Deposits and other liabilities to banks, other financial organisations and central bank	59.322.207	59.322.207
PO.III	Deposits and other liabilities to other clients	113.210.214	113.210.214
PO.IV	Liabilities arising from hedging Derivatives	-	-
PO.V	Change in fair value of hedged items	-	-
PO.VI	Liabilities from securities	-	-
PO.VII	Subordinated liabilities	4.566.337	4.566.337
PO.VIII	Provisions	654.200	654.200
PO.IX	Liabilities under assets held for sale and discontinued operations	-	-
PO.X	Current tax liabilities	252.560	252.560
PO.XI	Deferred tax liabilities	-	-
PO.XII	Subordinated liabilities	1.199.176	1.199.176
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	179.300.212	179.300.212

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

ANNEX 3 - Form PI-UPK (continued)

(in thousand RSD)

Designation of item	Item	Balance sheet as disclosed in financial reports	Balance sheet under regulatory method and scope of consolidation
	EQUITY		
PO.XV	Share capital	10.164.475	10.164.475
PO.XVI	Own shares	-	-
PO.XVII	Profit	2.918.483	2.918.483
PO.XVIII	Loss	-	-
PO.XIX	Reserves	10.548.843	10.548.843
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**	23.631.801	23.631.801
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)**	202.932.013	202.932.013
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	281.935.768	281.935.768
В.П.П.	Off-balance sheet liabilities	281.935.768	281.935.768

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Bank with references to the positions of regulatory capital (Appendix 1)

(in thousand RSD)

Designation of item	Item	Balance sheet	Reference
A	**ASSETS**		
A.I	Cash and assets with the central bank	24.641.261	
A.II	Pledged financial assets	-	
A.III	Derivative receivables	181.204	
A.IV	Securities	34.891.510	
A.V	Loans and receivables from banks and other financial organisations	1.700.361	
A.VI	Loans and receivables from clients	138.393.437	
A.VII	Change in fair value of hedged items	-	
A.VIII	Receivables arising from hedging derivatives	-	
A.IX	Investments in associated companies and joint ventures	-	
A.X	Investments into subsidiaries	93.560	
A.XI	Intangible assets	537.025	d
A.XII	Property, plant and equipment	1.062.904	
A.XIII	Investment property	-	
A.XIV	Current tax assets	173.326	
A.XV	Deferred tax assets	18.809	
A.XVI	Fixed assets intended for sale and assets of discounted operations	11.902	
A.XVII	Other assets	1.226.714	
A.XX	TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)	**202.932.013**	
P	**LIABILITIES AND EQUITY**		
PO	**LIABILITIES**		
PO.I	Derivative liabilities	95.518	
PO.II	Deposits and other liabilities to banks, other financial organisations and central bank	59.322.207	
PO.III	Deposits and other liabilities to other clients	113.210.214	
PO.IV	Liabilities arising from hedging Derivatives	-	
PO.V	Change in fair value of hedged items	-	
PO.VI	Liabilities from securities	-	
PO.VII	Subordinated liabilities	4.566.337	
	Of which subordinated liabilities that are included in the bank's supplementary capital	441.391	đ
PO.VIII	Provisions	654.200	
PO.IX	Liabilities under assets held for sale and discontinued operations	-	
PO.X	Current tax liabilities	252.560	
PO.XI	Deferred tax liabilities	-	
PO.XII	Other liabilities	1.199.176	
PO.XIV	**Equity exposures**	**179.300.212**	

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Bank with references to the positions of regulatory capital (Appendix 1)

(in thousand RSD)

Designation of item	Item	Balance sheet	Reference
	EQUITY		
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	2.918.483	
PO.XVIII	Loss	-	
PO.XIX	Reserves	10.548.843	
	Of which Other reserves	10.036.645	g
	Of which Revalorization reserves and other unrealized gains	602.586	v
	Of which unrealized losses	(90.388)	v
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**	23.631.801	
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)**	**202.932.013**	
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	281.935.768	
В.П.П.	Off-balance sheet liabilities	281.935.768	

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

APPENDIX 4 – The form PI-ABK

Data on capital requirements and capital adequacy of the Bank:

(in thousand RSD)

No	Name	Amount
I	**CAPITAL**	**24.895.736**
1.	**TOTAL COMMON EQUITY TIER 1 CAPITAL**	**21.022.556**
2.	**TOTAL ADDITIONAL TIER 1 CAPITAL**	
3.	**TOTAL TIER 2 CAPITAL**	**3.873.180**
II	**CAPITAL REQUIREMENTS**	**11.200.373**
1.	**CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES**	**9.779.033**
1.1.	Standardised Approach (SA)	122.237.912
1.1.1.	Exposures to central governments and central banks	-
1.1.2.	Exposures to territorial autonomies or local government units	1.210.117
1.1.3.	Exposures to public administrative bodies	719.845
1.1.4.	Exposures to multilateral development banks	-
1.1.5.	Exposures to international organisations	-
1.1.6.	Exposures to banks	1.507.833
1.1.7.	Exposures to companies	67.187.752
1.1.8.	Retail exposures	33.991.475
1.1.9.	Exposures secured by mortgages on immovable property	15.195.188
1.1.10.	Exposures in default	738.001
1.1.11.	Exposures associated with particularly high risk	-
1.1.12.	Exposures in the form of covered bonds	-
1.1.13.	Exposures in the form of securitisation positions	-
1.1.14.	Exposures to banks and companies with a short-term credit assessment	-
1.1.15.	Exposures in the form of units in open-ended investment funds	-
1.1.16.	Equity exposures	356.916
1.1.17.	Other items	1.330.785
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	-

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

APPENDIX 4 – The form PI-ABK (continued)

Data on capital requirements and capital adequacy of the Bank (continued):

(in thousand RSD)

No	Name	Amount
2	**CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK IN RESPECT OF UNSETTLED TRANSACTIONS**	**-**
3	**CAPITAL REQUIREMENT FOR MARKET RISKS**	**211.819**
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	211.819
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	50.741
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**	**1.175.138**
4.1.	Capital requirement for operational risk calculated under the Basic Indicator Approach	1.175.138
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 (%)**	**15,02**
IV	**TIER 1 CAPITAL RATIO (%)**	**15,02**
V	**TOTAL CAPITAL RATIO (%)**	**17,78**

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

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

Evaluation model

Bonds

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

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).

In RSD '000

	31 December 2018	**31 December 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 can not be considered active due to limited liquidity, are classified as Level 2. If market quotations are not available, fair value is determined using a valuation model (discounting future cash flows), and all parameters for the model (yield curves, spurs) are available on the market, Level 2 is also assigned.

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

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

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

36. RISK MANAGEMENT (Continued)

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

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

In RSD '000

	31.12.2018.				31.12.2017.			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS	**3.911.157**	**20.081.753**	**265.138**	**24.258.048**	**9.186.810**	**13.275.013**	**1.566.234**	**24.028.058**
Securities	**3.911.157**	**19.900.549**	**265.138**	**24.076.844**	**9.186.810**	**13.210.348**	**1.566.234**	**23.963.393**
Debit securities								
Republic of Serbia Treasury bills	3.589.032	19.840.314	236.389	**23.665.736**	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**
Derivative receivables	-	181.204	-	**181.204**	-	64.665	-	**64.665**
FINANCIAL LIABILITIES	**-**	**95.518**	**-**	**95.518**	**-**	**44.458**	**-**	**44.458**
Derivative liabilities	-	95.518	-	**95.518**	-	44.458	-	**44.458**

36. RISK MANAGEMENT (Continued)

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

Changes in the level of financial instruments valued at fair value

In RSD '000

	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

In RSD '000

	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 SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2018

36. RISK MANAGEMENT (Continued)

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

Development of the fair value of financial instruments at FV level 3

In RSD '000

	01.01.2018.	Transfer to 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 to 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

In RSD '000

	31.12.2018.	31.12.2017.
Assets		
Non-trading financial assets – FVPL		
Debt securities	1.134	(500)
Total	**1.134**	**(500)**

36. RISK MANAGEMENT (Continued)

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

Of bonds that are valued at fair value as at 31 December 2018, only one RS bond is allocated to level FV 3 (ISIN RSMFRSD37179, nominal amount of EUR 2.000.000). Reuters 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.

In RSD '000

	31 December 2018		31 December 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	1.700.361	1.702.612	2.210.553	2.210.681
Loans and receivables due from customers	138.393.437	144.777.479	104.140.053	113.300.220
Construction objects	787.592	787.592	474.059	474.059
Fixed assets intended for sale	11.902	23.886	11.902	23.886
FINANCIAL LIABILITIES				
Deposits due to banks	59.322.207	60.987.717	45.570.431	47.579.668
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.

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

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

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

In RSD '000

	31 December 2018	31 December 2017
Within a year	24.209	30.133
From 1 to 5 years	28.714	53.257
	52.923	**83.390**

(b) Litigation

As at 31 December 2018, the Bank had 593 initiated litigations in the total amount of RSD 1.466.684 thousand in which it had the status of the sued party (31 December 2017: RSD 1.598.141 thousand). The default interest based on disputes against the Bank amounts to RSD 110.498 thousand (31 December 2017: RSD 171.318 thousand).

Based on the assessment of the legal representatives of the Bank in the above mentioned disputes, the Bank made a provision in the amount of RSD 227.421 thousand (RSD 175.183 thousand as at 31 December 2017), for disputes that are expected to fall at the Bank's expense on this date. The Bank'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 the Republic of Serbia, tax liabilities do not become obsolete for a period of 5 years. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Bank's management believes that the Bank's tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

38. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

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

The Bank sent its customers outstanding item statements (OIS) as at 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 Bank is in contact with clients in order to resolve conflicts.

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

39. SEGMENT REPORTING

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

a) Structure of Operating Segments

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

b) *Definition of Operating Segments*

Retail Segment

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

Small and Medium Enterprises (SME)

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

Commercial Reals Estate Funding (CRE)

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

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

Financial Markets Segment (GM)

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

Other

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

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39. SEGMENT REPORTING

	Customers		Small and medium-sized enterprises		Commercial project financing		Large corporate clients		Financial markets		Other		TOTAL	
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	1,279,315	1,317,847	499,011	496,000	309,431	446,785	146,752	236,559	(20,777)	(233,338)	6,509,527	6,204,973
Dividend income	-	-	-	-	-	-	-	-	-	-	368	249	368	249
Net result from equity method investments	-	-	-	-	-	-		-	-	-	-	-	-	-
Rental income from investment properties & other operating leases	-	-	2,944	2,488	-	-	3,910	8,445	-	-	(2)	2,323	6,851	13,256
Net fee and commission income	1,199,357	1,068,915	380,423	319,832	18,526	14,689	146,931	134,330	34,607	26,891	(175,877)	(178,502)	1,603,966	1,386,154
Net trading result	160,480	131,531	41,756	39,833	10,047	10,800	10,089	10,191	384,838	223,357	(399)	97,980	606,812	513,692
Gains/losses from financial instruments measured at fair value through profit or loss	-	-	-	-	-	-	-	-		-	(55)	-	(55)	-
Other administrative expenses	(4,486,352)	(4,172,072)	(732,015)	(668,020)	(125,277)	(107,206)	(260,541)	(226,621)	(132,690)	(118,248)	1,131	(65,647)	(5,735,744)	(5,357,815)
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		42,533		-		-		-		11,541		58,636
Net losses from impairment of investments and non-financial institutions not measured at fair value through profit or loss		(1,666)		1		(0)		(0.2)		-		(7,501)		(9,167)
Net losses from impairment of financial assets not measured at fair value through profit or loss		(234,218)		137,986		66,856		203,537.0		(0.0)		(43,787)		130,374
Impairment result from financial instruments	16,572		(155,586)		(65,884)		322,533		-		90,464		208,099	
Other operating result	7,078	31,641	33,408	(55,789)		(5,300)	18,175	4,375	(3,936)	(2,628)	(129,324)	(76,431)	(74,599)	(104,132)
Pre-tax result from continuing operations	**1,193,224**	**769,812**	**850,244**	**1,136,710**	**336,424**	**475,839**	**550,528**	**581,042**	**429,572**	**365,930**	**(226,749)**	**(493,114)**	**3,133,243**	**2,836,220**
Taxes on income	(89,420)	(55,364)	(46,596)	(81,757)	(24,968)	(35,337)	(28,757)	(20,771)	(37,086)	(26,317)	12,375	15,567	(214,453)	(203,980)
Profit or loss for the year	**1,103,804**	**714,448**	**803,648**	**1,054,953**	**311,455**	**440,502**	**521,770**	**291,126**	**392,486**	**339,613**	**(214,374)**	**(477,546)**	**2,918,790**	**2,632,243**
Net result attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(0)	-	(0)	-
Net result attributable to the owners of the parent	**1,103,804**	**714,448**	**803,648**	**1,054,953**	**311,455**	**440,502**	**521,770**	**291,126**	**392,486**	**339,613**	**(214,374)**	**(477,546)**	**2,918,790**	**2,632,243**
Operating Income	5,655,632	5,141,565	1,704,437	1,680,000	527,584	521,490	470,361	599,751	566,198	486,806	(178,815)	(311,287)	8,745,396	8,118,325
Operating Expenses	(4,486,352)	(4,172,072)	(732,015)	(668,020)	(125,277)	(107,206)	(260,541)	(226,621)	(132,690)	(118,248)	1,131	(65,647)	(5,735,744)	(5,357,815)
Operating Result	**1,169,280**	**969,493**	**972,422**	**1,011,980**	**402,307**	**414,283**	**209,819**	**373,130**	**433,508**	**368,558**	**(177,684)**	**(376,934)**	**3,009,652**	**2,760,510**
A. Balance sheet														
Total assets (period end balance)	69,625,501	51,906,453	38,264,274	30,914,765	15,126,331	12,872,863	18,561,289	11,876,823	10,434,674	11,852,407	50,919,944	42,497,693	202,932,013	161,921,005
Total liabilities (period end balance)	66,768,395	58,364,359	19,928,967	22,241,715	9,036,024	9,610,850	19,622,682	11,229,909	2,705,221	2,724,198	61,806,452	37,645,576	179,867,741	141,816,606
Equity	5,560,807	3,596,939	4,351,321	2,881,355	1,638,707	1,067,849	1,675,091	1,514,604	855,858	1,461,990	8,982,488	9,581,661	23,064,272	20,104,398
C. Key indicators/parameters														
Cost/Income Ratio	79%	81%	43%	40%	24%	21%	55%	38%	23%	24%	1%	21%	66%	66%
Loans/Deposits Ratio (net)	101%	87%	190%	170%	167%	137%	96%	96%	0%	0%	7%	14%	113%	110%
Return on the average allocated equity	20%	20%	18%	37%	19%	41%	31%	19%	46%	23%	-2%	-5%	13%	13%

40. ADDITIONAL INFORMATION ON CASH FLOWS

	2018	2017
Cash	3.239.312	2.798.893
Gyro account	4.730.803	8.681.382
Foreign currency accounts with foreign banks	491.198	1.150.593
Balance as at 31 December	**8.461.312**	**12.630.868**

Obligatory reserves held with the National Bank of Serbia is not available for everyday business transactions of the Bank and that is why it is not a part of cash flows (Note 18).

41. 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.

NOTES TO SEPARATE FINANCIAL STATEMENTS
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42. 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:

In RSD '000

	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 Head of Accounting and Controlling Department	Aleksandra Radić Executive Board Member	Slavko Carić Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 1

NOTES TO SEPARATE FINANCIAL STATEMENTS
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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 ratio	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 Derivatives	Over the Counter Derivatives
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