KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Belgrade
Serbia

Tel.: +381 (0)11 20 50 500
Fax: +381 (0)11 20 50 550
www.kpmg.com/rs

Independent Auditors' Report

TO THE SHAREHOLDERS OF

OPPORTUNITY BANKA A.D. NOVI SAD

We have audited the accompanying financial statements of Opportunity bank a.d. Novi Sad ("the Bank"), which comprise statement of financial position as at 31 December 2017, statement of profit and loss, 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 Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG doo Beograd

KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Beograd
Serbia

Belgrade, 18 April 2018

STATEMENT OF FINANCIAL POSITION AS AT 31ST OF DECEMBER 2017

In thousands of RSD	Note	31st December 2017	31st December 2016
Assets			
Cash and balances with central bank	3(j), 16	2,051,645	1,541,745
Financial assets available for sale	3(i), 17	300,615	164,534
Loans and receivables to banks and other financial institutions	3(i), 18	61,540	731,964
Loans and receivables to customers	3(i), 19	11,153,736	10,051,867
Intangible assets	3(l), 20	115,422	103,556
Property, plant and equipment	3(k), 21	311,332	325,233
Deferred tax assets	22	-	999
Other assets	23	129,007	85,193
Total assets		**14,123,297**	**13,005,091**
Liabilities			
Deposits and other liabilities to banks, other financial institutions and central bank	3(i), 3(n), 24	3,512,344	2,516,187
Deposits and other liabilities to other customers	3(i), 3(n), 25	6,452,373	6,886,509
Subordinated liabilities	3(i), 3(n), 26	1,203,198	1,002,293
Provisions	3(o), 27	48,391	27,283
Current tax liabilities		6,503	17,690
Deferred tax liabilities	22	2,295	-
Other liabilities	28	164,975	172,355
Total liabilities		11,390,079	10,622,317
Equity			
Share capital and share premium	29	1,857,798	1,857,798
Profit	29	520,786	335,399
Reserves	29	354,634	189,577
Total Equity		2,733,218	2,382,774
Total liabilities and equity		**14,123,297**	**13,005,091**

Novi Sad, 20th March 2018

For and behalf of the management of
Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Opportunity Banka a.d. Novi Sad

Zorica Sedlar
Member of the Executive Board

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST OF DECEMBER 2017

In thousands of RSD	Note	2017	2016
Interest income	3(d), 7	2,277,514	2,040,915
Interest expense	3(d), 7	(498,503)	(487,111)
Net interest income		1,779,011	1,553,804
Fee and commission income	3(e), 8	48,744	61,385
Fee and commission expense	3(e), 8	(23,107)	(22,177)
Net fee and commission income		25,637	39,208
Net income from foreign exchange differences and foreign currency contract clause	3(f), 9	417	32
Other operating income	10	9,354	8,857
Net impartment loss on financial assets and off-balance sheet credit risk items	3(i), 11	(101,725)	(114,529)
Operating income, net		**1,712,694**	**1,487,372**
Expenses of wages, salaries and other personnel expenses	12	(524,451)	(464,499)
Depreciation expenses	3(k), 3(l), 20, 21	(50,109)	(46,229)
Other expenses	3(g), 13, 30.1	(707,263)	(591,508)
Profit before income tax		**430,871**	**385,136**
(Loss)/Profit from deferred tax assets and liabilities	3(h), 14	(3,294)	3,742
Income tax	3(h), 14	(74,491)	(53,479)
Profit for period		**353,086**	**335,399**

Novi Sad, 20th March 2018

For and behalf of the management of Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST OF DECEMBER 2017

In thousands of RSD	Note	2017	2016
Profit for the year		353,086	335,399
Components of other comprehensive income that cannot be reclassified to profit or loss:			
Decrease of revaluation reserve on the valuation of intangible assets and tangible assets	29	(2,209)	-
Components of other comprehensive income that may be reclassified to profit or loss:			
The negative effect of changes of financial assets available for sale	29	(434)	(1,593)
Total other comprehensive loss	29	(2,642)	(1,593)
Total comprehensive income for the period		**350,442**	**333,806**

Novi Sad, 20th March 2018

For and behalf of the management of Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board

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

In thousands of RSD	Note	Share capital	Share premium	Reserves from profit	Revaluation reserves	Accumulated Losses	Profit	Total
Balance as at 1st of January 2016	29	**1,775,940**	**81,858**	**-**	**92,385**	**(146,055)**	**244,840**	**2,048,968**
Profit for the year	29	-	-	-	-	-	335,399	335,399
Effects of changes in fair value of financial assets available for sale		-	-	-	(1,593)	-	-	(1,593)
Distribution of profit	29	-	-	98,785	-	146,055	(244,840)	-
Balance as at 31st of December 2016	29	**1,775,940**	**81,858**	**98,785**	**90,792**	**-**	**335,399**	**2,382,774**
Balance as at 1st of January 2017	29	**1,775,940**	**81,858**	**98,785**	**90,792**	**-**	**335,399**	**2,382,774**
Profit for the year	29	-	-	-	-	-	353,086	353,086
Unrealized losses of financial assets available for sale		-	-	-	(2,642)	-	-	(2,642)
Distribution of profit	29	-	-	167,699	-	-	(167,699)	-
Balance as at 31st of December 2017	29	**1,775,940**	**81,858**	**266,484**	**88,150**	**-**	**520,786**	**2,733,218**

Novi Sad, 20th March 2018

For and behalf of the management of Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the executive board

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST OF DECEMBER 2017

In thousands of RSD	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**2,414,438**	**2,210,808**
Inflow from interest	2,018,237	1,845,008
Inflow from fees and commissions	326,421	301,899
Inflow from other operating income	69,780	63,901
Cash outflow from operating activities	**(1,802,519)**	**(1,529,698)**
Outflow from interest	(489,284)	(448,521)
Outflow from fees and commissions	(31,959)	(15,166)
Outflow from gross salaries, benefits and other personal expenses	(546,283)	(475,056)
Outflow from taxes, contributions and other duties charged to income	(162,178)	(138,488)
Outflow from other operating expenses	(572,815)	(452,467)
Net cash inflow from operating activities before increase or decrease in placements and deposits	**611,919**	**681,110**
Net inflow from placements and increase in deposits and other liabilities	**-**	**773,539**
Net inflow from financial assets that are initially recognised at fair value through the statement of profit and loss, financial assets held for trading and other securities not intended for investments	-	220,786
Net inflow from deposits and other liabilities to banks, other financial organisations, Central Bank and customers	-	552,753
Net outflow from placements and decrease in deposits and other liabilities	**(2,040,772)**	**(1,358,481)**
Net outflow from loans and receivables to banks, other financial institution's, Central Bank and customers	(1,704,868)	(1,358,481)
Net outflow from financial assets that are initially recognised at fair value through the statement of profit and loss, financial assets held for trading and other securities not intended for investments	(136,080)	-
Net outflow from deposits and other liabilities to banks, other financial organisations, Central Bank and customers	(199,824)	-
Net cash outflow from operating activities before income tax	**(1,428,853)**	**96,168**
Income tax paid	(88,474)	(56,742)
Net cash (outflow) / inflow from operating activities	**(1,517,327)**	**39,426**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**36**	**-**
Sale of intangible assets, property, plant and equipment	36	-
Cash outflow from investing activities	**(51,343)**	**(49,428)**
Purchase of intangible assets, property, plant and equipment	(51,343)	(49,428)
Net cash outflow from investing activities	**(51,307)**	**(49,428)**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**1,618,305**	**548,649**
Proceeds from subordinate liabilities	245,680	258,022
Proceeds from borrowings	1,372,625	290,627
Cash outflow from financing activities	**(645,835)**	**(247,032)**
Outflows from subordinated loans	(48,732)	-
Outflows from borrowings	(597,103)	(247,032)
Net cash inflow from financing activities	**972,470**	**301,617**
TOTAL CASH INFLOW	**4,032,779**	**3,532,996**
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST OF DECEMBER 2017 (extension)		
TOTAL CASH OUTFLOW	**(4,628,943)**	**(3,241,381)**
NET (DECREASE)/INCREASE IN CASH	**(596,164)**	**291,615**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,145,385	846,086
(Negative)/positive foreign exchange differences	(14,362)	7,684
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**534,859**	**1,145,385**

Novi Sad, 20th March 2018
For and behalf of the management of Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Opportunity Banka a.d. Novi Sad

Zorica Sedlar
Member of the Executive Board

1. ACTIVITY

Opportunity bank a.d. Novi Sad (hereinafter: The Bank) was founded on 27th of May 2002 as Opportunity International Stock Savings Bank a.d. Novi Sad, which commenced its operations based on the License provided by the National Bank of Yugoslavia dated 28th of June 2002 and the Court registration dated 2nd of July 2002.

In accordance with the Law on Banks (Official Gazette RS, No. 107/2005, No. 91/2010 and 14/2015) and the Foundation Agreement signed on 4th of December 2006 by Opportunity Transformation Investments Inc., European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and Oikocredit Ecumenical Development Cooperative Society U.A., the Opportunity International Stock Savings Bank a.d. Novi Sad was transformed into a bank. The change in name of the Bank to Opportunity bank a.d. Novi Sad, as well as the change in registered activities, has been registered with the Business Registers Agency under registration number BD 24798/2007 as at 20th of April 2007. The Bank formally started to operate as a bank on 7th of February 2007 when the operating license was issued by the National Bank of Serbia.

In accordance with the Law on Banks, the Foundation Agreement and Statute, the Bank is registered to perform the following activities:

- credit operations (granting and taking loans in the country and abroad),
- deposit operations (receiving and depositing deposits)
- payment transactions,
- foreign exchange, foreign exchange currency and exchange transactions,
- guarantees (issuing guarantees and other forms of guarantees),
- other operations for which it is authorized by law

As at 31st of December 2017, the Bank has its Head Office in Novi Sad, branches in Novi Sad, Novi Beograd, Belgrade, Nis, Kragujevac, Subotica, Cacak, Jagodina, Sabac and loan offices in Belgrade, Sombor, Zrenjanin, Pirot, Vranje, Leskovac, Kraljevo, Valjevo, Uzice, Zajecar, Prijepolje, Pozarevac, Senta, Sremska Mitrovica, Pancevo, Loznica, Obrenovac, Backa Palanka, Krusevac and Topola.

As at 31st of December 2017 the Bank had 338 employees (31st of December 2016: 312).

The identification number of the Bank is 08761132, and tax identification number is 101643574.

2. THE BASIS FOR PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board (hereinafter: IFRS), from the date determined by the competent international authority as the day of their use.

b) Basis of measurement

Financial statements have been prepared on the historical cost basis except for the following positions in the statement of financial position:

- Financial assets available for sale which are measured at fair value (Note 3(l) and Note 17)
- Property where revaluation model has been applied (Note 3(m) and Note 21).

(c) Functional and presentation currency

Financial statements are disclosed in Serbian Dinars (RSD) which is the Bank`s functional and presentation currency. All data disclosed in Serbian Dinars has been rounded to the nearest thousands, except when otherwise indicated. All transactions executed in currencies, that are not the functional currency, are treated as transactions in foreign currencies.

(d) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, which implies that the Bank will continue its business in the foreseeable future. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation of uncertainty and critical judgment in applying accounting policies are included in Note 5, Key sources of uncertainty assessment.

(e) New standards, interpretations and amendments to published standards

Standards and interpretations that have been applied for the first time as of the current period, which begin on or after 1st of January 2017, are:

- Changes and Amendments to IAS 7 Cash Flow Statement – The Disclosure Initiative (effective for financial periods that begin on or after January 1st 2017);
- Changes and Amendments to IAS 12 Income Taxes - recognition of deferred tax assets for unrealized losses (effective for financial periods that begin on or after January 1st 2017);
- Annual Improvements Cycle IFRS 2014- 2016 – Changes and Amendments to IFRS 12 Disclosure of Interests in Other Entities (effective for financial periods that begin on or after January 1st 2017).

The standards listed above do not affect the financial statements prepared for the period and year end December 31st, 2017.

During the period in which the financial statements had been approved, the following standards and interpretations were issued which are to be applied in the following period:

- Changes and Amendments to IFRS 2 Share-based Payment (effective for financial periods that begin on or after January 1st, 2018);
- Annual Improvements Cycle IFRS 2014- 2016 – Changes and amendments to IFRS 1 First-time Adoption of IFRS and IAS 28 Investments in Associates and Joint Ventures (effective for financial periods that begin on or after January 1st, 2018);
- IFRIC 22 Interpretation – Foreign Currency Transactions and Advance Considerations (effective for financial periods that begin on or after January 1st, 2018);
- Implementation of IFRS 9 Financial Instruments within IFRS 4 Insurance Contracts (effective for financial periods that begin on or after January 1st, 2018);
- Changes and Amendments to IFRS 40 Investment Property - Transfers of Investment Properties (effective for financial periods that begin on or after January 1st, 2018);
- IFRS 9 Financial Instruments (effective for financial periods that begin on or after January 1st, 2018)
- IFRS 15 Revenue from Contracts with Customers (effective for financial periods that begin on or after January 1st, 2018). New Standard replacing the requirements of IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Real Estate Brokering Agreements, IFRIC 18 Transfers of Assets from Customers, introduces a basic principle that requires revenue to be recognized at the time of transfer of goods or services to the buyer at the price of the performed transaction. In the case of sets of goods or services that are separated by nature, these goods and services must be recognized separately, and any discounts or rebates on the agreed price must be allocated according to separate elements. If the amount of the charge is variable, minimum amounts should be recognized, if there is no significant risk of cancellation. Security Contract Costs are capitalized and amortized over the period during which the benefits of the contract are spent.

  The Bank realizes three types of revenues:

  - interest income on placements to clients that are regulated through IFRS 9
  - the revenues from the sale of assets acquired by collecting receivables from clients, that are recorded at the time of transition benefits to the buyer and
  - loan approval fees that are recorded at the moment of service delivery to the client.

The Bank does not offer card products or any other type of complex products (packages) that would require separation of recognition in terms of IFRS 15. Therefore, it is estimated that the application of IFRS 15 will not have a significant impact on the Bank's financial statements.

- IFRS 16 Leases (effective for financial periods that begin on or after January 1st, 2019). The new standard sets out the principles for the recognition of measurement, presentation and disclosure of lease. In all lease operations, a financing element is also included, as the beneficiary is entitled to use the funds at the beginning of the lease period, and payment is made during the period. Accordingly, IFRS 16 excludes the classification of leases on operational and financial leases, as stated in IAS 17, and instead introduces a unique lease model. The lessee is required to recognize:

- assets and liabilities for all types of leases with a term longer than 12 months, unless the fixed asset is of low value, and
- decrease of the value of the asset is separated from the interest on the lease in the income statement.

- IFRIC 23 Interpretations - Uncertainty Over Income Tax Treatments (effective for financial periods that begin on or after January 1st, 2019);
- Changes and Amendments to IAS 19 – Plan of Changes, Restrictions or Alignment (effective for financial periods that begin on or after January 1st, 2019);
- Annual Improvements Cycle IFRS 2015- 2017 - Changes and amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs (effective for financial periods that begin on or after January 1st, 2019);
- Amendments to IAS 28 Long-term Ineterests in Associates and Joint Ventures (effective for financial periods that begin on or after January 1st, 2019);
- IFRS 17 Insurance Contracts (effective for financial periods that begin on or after January 1st, 2021).

Management foresees that all the above interpretations and standards will be applied in the financial statements of the Bank for the periods from which they are effective, therefore their adoption will not have a significant effect on the financial statements during first application, except for the application of IFRS 9 Financial Instruments, whose impact is explained in the following note and *IFRS 9 Financial Instruments and IFRS 16 Leases* whose impact the Bank is currently evaluating:

/i/ IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for periods after 1st of January 2018, and which will replace IAS 39 Financial Instruments: Recognition and Measurement.

The Bank will apply IFRS 9 starting on 1st of January 2018. Based on the preliminary calculation of the Bank, the total estimated effect of the first application of IFRS 9 to the initial capital on 1st of January 2018, will amount to approximately RSD 32 million, which will have an impact on the decrease in undistributed profits, and which arises from the application of the methodology for impairment of financial assets in accordance with the requirements of IFRS 9.

Based on effective tax regulations in the Republic of Serbia, there are no tax effects arising from the first implementation of IFRS 9, but it is not possible to foresee whether there will be changes therein during 2018.

The Bank estimates that it will not have any effect from applying new requirements for classification and measurement.

These effects are preliminary assumptions, given that the completion of transition stages to a new standard is still in progress. The actual effect of applying IFRS 9 starting 1st of January 2018 may be changed due to the fact that:

- The new standard will require the Bank to consider internal controls and changes which have not been implemented in full,
- The Bank is in the finalization stage of creating the model and IT solution for calculation and bookkeeping in accordance with IFRS 9. As a result, the mentioned effects could change once the implementation process is complete,
- the new accounting policies, assumptions, and valuation techniques which will be used, can be changed to the disclosure of the first financial statements that include the first day of application,
- the system and associated controls designed to achieve compliance with new requirements of the standard have not been implemented for the entire reporting period.

Classification – Financial assets

IFRS 9 will entail a new method of classifying and measuring financial assets that depends on the business model that applies to assets and the characteristics of their cash flows, IFRS 9 defines three basic categories of financial assets: assets measured at amortised cost, assets measured at fair value through other comprehensive income (hereinafter: FVOCI) and assets that are measured at fair value through profit and loss (hereinafter: FVTPL), The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it is not designated as at FVTPL and meets both of the following criteria:

- the asset is held within business model with objective to hold assets to collect contractual cash flows, and
- the contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In the initial recognition of each individual financial instrument that is not intended for trading, the Bank will irrevocably decide whether the asset will be measured through FVOCI or FVTPL.

All financial assets that are not classified as measured at amortized cost or FVOCI will be measured through FVTPL.

Business model assessment

The Bank will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the management of the Bank;
- The risks affecting the performance of the business model and financial assets within that business model and how those risks are managed;
- How managers of business are compensated (e.g. whether compensation is based on fair value or the assets managed of the contractual cash flows collected);
- The frequency, scope and reason of selling financial assets in previous periods and expectations regarding future sales.

Assessment whether the contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of a financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks costs (e.g. liquidity risk and administrative cost), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such as: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets, periodic resetting of interest rates.

Impact assessment

The standard will affect the classification and measurement of the financial assets in Bank's books held as at 1st of January 2018 according to the preliminary analysis as follows:

- Loans and advances to banks, other financial organisations and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Cash and contractual rights that implies - the receipt of cash or other financial assets from another entity or the exchange of financial assets or financial liabilities with another entity under potentially favorable conditions, that are measured at amortised cost under IAS 39 will also continue to be measured under IFRS 9 at amortised cost.
- Financial guarantees, or contracts that by definition require the issuer to make specific payments to compensate the holder for any loss that arises because of the debtor's failure to make payment, that has accrued in accordance with the original or modified terms of a debt instrument that is measured at amortised cost under IAS 39, will also under IFRS 9 continue to be measured at amortised cost.
- The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9. Recording the change in fair value from these financial assets will be through the income statement instead of the statement of other comprehensive income.

Regarding classification and measurement stream, the Bank will define its business model as a hold-and-collect model. Regarding analysis of balance sheets and credit portfolio on 1st of January 2018, the Bank has previously established that there are no financial assets leading to cash flows that do not represent payments of solely principal and interest and that would require fair value measurement, or a change in classification in accordance with IFRS 9. Therefore, the classification of financial assets under IFRS 9 during the first application, according to the preliminary analysis, will have no effect on the method used in measuring financial assets.

Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets, if they are not measured at fair value.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and

- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Significant increase in credit risk

The Bank has identified a set of criteria that will be used for valuation purposes and will be used to compare the situation at the moment of the initial recognition of a financial instrument in accordance with IFRS 9. Identification of one or more of the above indicators may indicate that there has been a significant increase in credit risk.

All receivables (financial instruments) for which value adjustments are made will be assigned to one of the stages 1, 2 or 3, depending on the quality of the instrument, in the following way:

- Stage 1 - financial instruments with low credit risk
- Stage 2 - financial instruments with a significant increase in credit risk
- Stage 3 - financial instruments for which objective evidence of impairment is identified

The Bank will periodically assess whether there has been a significant increase in credit risk in relation to the date of initial recognition, and also calculate an adequate amount of impairment on the basis of expected credit losses.

After the first application of IFRS 9, the Bank will work on the development of a model that will measure a significant increase in credit risk through a relative aggravation of the risk of default by the instrument for the whole lifetime (lifetime PD movements).

A significant increase in the credit risk for the exposure segment towards the countries and financial institutions will be determined as a fall of two rating categories, observed in relation to the rating scale of renowned external rating agencies (Moody's, Fitch, S & P).

The assessment of whether the credit risk is significantly increased with respect to the initial recognition of the financial instrument will require the identification of the initial recognition data of the financial instrument.

Credit risk grades

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The Bank has identified the parameters whose identification will reflect an increase in default risk. In identifying a significant increase in credit risk at the level of a single financial instrument, the Bank will take care that this moment has been identified before the moment of default.

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures.

In accordance with the requirements of IFRS 9, the Bank has made a statistical analysis of the impact of macroeconomic parameters on the default rate. The analysis was done separately for each business line (agro, business and retail).

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors.

The default status will be a delay in repayment of loan rates more than 90 days.

Default status may be identified even before the 90 days delay if other qualitative criteria are identified that indicate that the borrower is unable to settle his obligations in full, which includes the negative effect on estimated future cash flows.

For these purposes, the Bank has identified the list of indicators that will follow to identify the status of default, for material placements.

Determining whether credit risk has increased significantly

For each reporting period, the Bank will assess whether there has been a significant increase in credit risk for all financial instruments. If the value correction of a financial instrument is measured at an amount equal to the lifetime expected credit losses of the previous reporting period, but determined on the current reporting date that the conditions are no longer met, the Bank will impose a value correction for the amount equal to the expected twelve-month credit loss on the current reporting date.

In each reporting period, i.e. at the moment of estimating the expected credit losses for the purposes of calculating the value correction, the Bank will, in accordance with the Internal Methodology, assess all financial instruments individually (at the level of each instrument) for whether there has been a significant increase in credit risk.

In identifying a significant increase in credit risk at the level of a single financial instrument, the Bank will make sure that that moment has been identified before the moment of default.

For purposes of analysis, the Bank has identified a set of criteria that will be used for valuation purposes and will be used to compare the situation at the moment of initial recognition of a financial instrument in accordance with IFRS 9 and this Methodology. Identification of one or more of these indicators may indicate a significant increase in credit risk.

All receivables (financial instruments) for which value correction will be estimated, will be allocated to one of the stages, i.e. 1, 2 or 3, depending on the quality of the instrument itself.

The Bank will periodically assess whether there has been a significant increase in credit risk in relation to the date of initial recognition and will account for an adequate amount of impairment on the basis of expected credit losses.

The general future approach of the Bank to calculating expected credit losses for the entire duration of the financial instrument can be represented by the following formula:

$$\boldsymbol{ECL} = \sum_{t=1}^{T} (\boldsymbol{EAD_t} * \boldsymbol{MPD_t} * \boldsymbol{LGD_t} * \boldsymbol{DF_t})$$

ECL	Expected credit loss
EAD	Exposure at default
MPD	Marginal Probability of default
LGD	Loss given default
DF	EIR based discount factor

In this way, the expected loan losses for the whole period of the financial instrument will be losses recognized by the Bank for the purposes of estimating value adjustment for stage 2, while the highest one-year share of such estimated credit losses represents expected credit loss that is recognized for financial instruments in stage 1.

An assessment of the calculation of impairment for exposures in Stage 3 will be made for:

- all exposures with identified default status, i.e. default status;

- all financial instruments that meet the definition of the POCI in accordance with IFRS 9

For these financial instruments, impairment will be calculated as the difference between the gross book value of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate of the financial asset.

In accordance with IFRS 9, expected credit losses represent probability weighted assessment of credit losses, and the Bank will, accordingly, recognize the existence of more possible billing scenarios in an individual estimate of expected future cash flows.

On that occasion, the scenarios to be considered are:

- collateral realization (and then separately court and extrajudicial),
- restructuring and reprogramming,
- bankruptcy,
- sale of receivables,
- settlement and
- everything else that he considers relevant.

When determining the probability of certain scenarios, the Bank will be guided by the history of the realization and payment of non-performing instruments, but also the specifics of the individual financial instrument and accordingly will be assigned appropriate weightings, which in the sum of all scenarios must be 100%.

In the Internal Methodology, the Bank has determined the materiality based on which selection will be made of exposures assessed by estimating expected cash flows, which are determined by segments (lines of business).

For exposures below the materiality threshold, a group approach will be applied, which implies grouping of the remaining financial instruments in stage 3 by segments. In the current absence of sufficient credit history and mortgage real estate history, the Bank will estimate the value adjustment for Level 3 exposures according to the following simplified model.

$$ECL = EAD \cdot LGD_{unsecured} \cdot (1 - p)$$

where EAD is the sum of all Level 3 exposures at the time of estimation.

Modified financial assets

In some circumstances, renegotiating or modifying contractual cash flows of a financial asset may lead to derecognition of an existing financial asset in accordance with IFRS 9. When a modification of a financial asset results in derecognition of an existing financial asset and the subsequent recognition of a modified financial asset, the modified asset will be considered as a "new" financial asset for the purposes of this Standard.

In these situations, the Bank will do a quantitative and qualitative assessment and estimate whether there is a significant difference between the cash flows of the original financial asset and the cash flows of a modified or replaced financial asset. If there is a significant difference in cash flows, contractual rights from the original financial asset will be considered as expired and it will be needed to recognize a new asset issued under new conditions.

Calculation of parameters for estimates of expected loss

The key parameters for calculating expected losses are the following variables:

- probability of default (PD),
- loss given default (LGD) and
- exposure at default (EAD)

These parameters will be based on internally developed statistical methods and models and other historical data that use regulatory models and will be adapted to reflect forward-looking information.

The Bank will calculate average PDs separately for corporate and retail segments for the observed historical periods. Based on a series of migration matrices, the Bank will calculate the average PD TTC (through-the-cycle) that will reflect all internal and external factors that are dominant in the observed period of time.

The Bank will apply the concept of separate calculation LGDsecured and LGDunsecured, depending on whether individual placements are secured or not.

For the purposes of calculating unsecured LGDs, the Bank will monitor the payment of cases in default and identify the sources. For this purpose, each entry of claims in the status of default will be separately examined, as well as chronologically identify all billing regarding to that basis.

For the purpose of estimating the LGDsecured, or the expected loss rate after collateral, the Bank will consider all internal available mortgages, where there is an estimate of possible payment.

EAD – It represents exposures at the time of default, i.e. the current gross book value of a financial asset in accordance with IFRS 9 at the moment of default, considering the profile of contracted cash flows, as well as possible additional withdrawals from approved lines before default. For instruments with contracted cash flows, as well as those for which maturity is explicitly agreed, the Bank will consider contracted cash flows according to the repayment plan, as relevant. In the case of financial instruments for which there are no defined cash flows, nor agreed maturity dates, it will be determined based on empirical experience.

Forward-looking information

In accordance with IFRS 9, the Bank will include forward-looking information in its credit risk assessments.

The Bank has identified and documented key credit risk and loan loss drivers for each portfolio of financial instruments and considering the analysis of historical data, estimates the relations between macroeconomic variables and credit risk and credit losses.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI and
- the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities as FVTPL and the Bank has no present intention to do so. The Bank's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities when applied on 1st of January 2018 year.

Impact on capital planning

The Bank will present the entire impact of the first application of the standard through the undistributed profit, which will reduce book value of capital, but it will not affect the amount of the regulatory capital, since the undistributed profit is not included in the regulatory capital.

On the other hand, the preliminary calculation indicates that regulatory capital will be increased due to the decrease in the level of required reserves for estimated losses on balance sheet assets and off-balance sheet items, which is deducted from the basic share capital for RSD 12 million. At the same time risk weighted assets will be increased by RSD 12 million. Risk weighted assets will be calculated on the basis of net exposure. As use of IFRS 9 increases in the level of impairment, net exposure and capital requirement will be reduced. According to preliminary estimates, the effects of this change will lead to a change in the regulatory capital adequacy ratio for 0.13%, from 23.21% to 23.34%.

Transition to the new standard

Changes in accounting policies arising from the application of IFRS 9 will generally be applied retrospectively, with the following acceptable exemption.

The Bank plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in equity as at 1 January 2018.

f) Comparative data

Comparative data in these financial statements is data from the audited financial statements of the Bank that were prepared for the year ended on 31st of December 2016.

Accounting policies and estimates applied in the preparation of the financial statements are consistent with the accounting policies and estimates applied in the preparation of the annual financial statements of the Bank for 2016.

g) Reconciliation of outstanding balances with counterparties

The Bank reconciled outstanding receivables and liabilities with counterparties as at 30th of November 2017. Total number of confirmations for loan receivables and guarantees sent out is 5,783.

From this amount: due to the wrong address 1,074 confirmations or 18.6% were returned, 102 or 1.8% were signed and 4596 confirmations or 79.5% were considered implicitly reconciled, given that it is stated in the confirmation that in the case of no response from the client during the 8 day period the balance shall be considered reconciled. The number of unreconciled confirmations is 11 or 0.2%. The amount of unreconciled receivables of RSD 9,261 thousand relates to loan receivables.

In respect of other receivables, 81 confirmations were submitted, from which 23 were reconciled, 49 are implicitly considered reconciled and 8, unreconciled in the amount of RSD 392 thousand. One was returned as undelivered.

In respect of liabilities, 107 confirmations were received, from which 99 were reconciled, 8 unreconciled, with the unreconciled amount being RSD 22 thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and estimates applied in the preparation of the financial statements are consistent with the accounting policies and estimates applied in the preparation of the annual financial statements of the Bank for all the years shown, unless otherwise indicated.

(a) Consolidation

The Bank does not have control over any entity and does not prepare consolidated financial statements.

(b) Going concern

The financial statements have been prepared in accordance with the going concern concept, which assumes that the Bank will continue to operate in the foreseeable future.

(c) Foreign currency

Transactions in foreign currencies are translated into Serbian Dinars at the spot exchange rates at the date of the transaction.

Assets and liabilities denominated in foreign currencies as at the date of the statement of financial position are translated into Serbian Dinars at the spot exchange rates at the reporting date. Exchange differences due to translation have been presented within the statement of profit and loss.

Profits and losses resulting from translation of financial assets and liabilities with currency clause has been posted in the statement of profit and loss as profit or losses of foreign exchange rate and FX contracts.

The official exchange rates for major currencies used in the translation of the statement of financial position items denominated in foreign currencies were on 31st of December in 2016 and 2017 as follows:

In RSD	**2017**	**2016**
USD	99.1155	117.1353
CHF	101.2847	114.8473
EUR	118.4727	123.4723

(d) Interest income and expenses

Interest income and expenses are recognised in profit and loss statement using the effective interest method. The effective interest rate discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or shorter period when appropriate) to the book value of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, the ability to pay in advance), but not future loan losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit and loss include:

- income on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- income on financial assets available-for-sale calculated on an effective interest basis.

When a financial asset or a group of similar financial assets is written off as a result of a loss due to decreased value, the income from the interest is accrued on net basis of impaired placement by using the interest, which was used for discounting future cash flows in order to measure the loss from a decreased value.

e) Fees and commission income and expenses

Fees and commission income and expenses that are consisted in effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate (look up (d)). When a loan draw is expected, 50% of commission fee related to that loan is recognised at the moment of the loan realisation, and the other 50% is recognised proportionally over the commitment period. For retail loans, 25% of the commission fee is recognised at the moment of the loan realisation, and 75% is recognised proportionally over the commitment period.

Income from fees and commissions arising from the provision or use of banking services is recognized on the basis of the causation of income and expenses, i.e. in the period when they were realized, that is, when the services were performed. Fee and commission income includes transfer payments in foreign currency, domestic payment transactions, loan administration, guarantees, letter of credit and other banking services.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(f) Net income from foreign exchange differences and foreign currency contract clause

Foreign exchange gains and losses produced from translation of balance sheet items in foreign currencies and transactions in foreign currencies are posted in the statement of profit and loss, as profit or loss on foreign exchange rate and are presented within the line item Net income on foreign exchange rate and FX contracts clause.

Net income from foreign exchange differences and foreign currency contract clause include foreign exchange differences (Note 9).

(g) Lease payments

Lease is classified as financial if:

- the contract arranges for the authorization of hold and use over the leased asset is transferred to the Bank during the term of the contract,
- the contract arranges for the ownership right over the asset is transferred to the Bank under conditions specified in the contract,
- the lease period is approximately equal to the useful life of the asset,
- the value of the lease contract is approximately equal to the cost of the assets.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Potential lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Operating leases include the lease of assets in which all the benefits and risks related to the ownership held by the lessor. Operating lease payments are recognized through the income statement in proportion to the lease period. Received lease incentives are recognized as an integral part of total leasing costs during the lease period.

As at 31 December 2017, the Bank did not have assets that would be classified as a financial lease. Details of assets used under operating lease are given in these Notes, part 30.2.

(h) Tax expense

Tax expense includes current and deferred tax. Current and deferred tax has been presented in the statement of profit and loss, except to the extent that they relate to items that are recognized directly in equity, i.e. in other comprehensive income.

/i/ Current tax income

Tax on profit represents an amount that is calculated and paid in accordance with the Corporate Profit Tax Law of the Republic of Serbia („Official Gazette RS“, no. 25/01, 80/02, 80/02-other law, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13, 68/14- other law, 142/14, 91/15). During the year, the Bank has been paying profit tax by monthly advances, which amount is determined based on tax return for the previous year. Final tax base for applying of tax rate on corporate profit of 15% (2016: 15%), is determined based on the tax balance of the Bank.

Taxable profit includes accounting profit presented in the statement of profit and loss and adjustment for permanent differences, in accordance with the Corporate Profit Tax Law of the Republic Serbia. These adjustments mainly include costs unrecognized and recognition of some costs reversal and reduction of capital expenditures and investments during the year.

In the previous year, the Bank fully utilized a tax credit for investments in fixed assets.

/ii/ Deferred tax income

Deferred income tax is provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carry forward can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets and liabilities as at 31^{st} of December 2017 are calculated at a currently valid rate of 15% (2016: 15%).

/iii/ Other taxes and contributions

Other taxes and contributions include property tax, VAT, contribution on salaries charged by the employer, as well as other taxes and contributions paid in accordance with Republic and local tax regulations. These taxes and contributions are presented within other expenses (Note 13).

(i) Financial assets and liabilities

/i/ Recognition

The Bank initially recognizes loans and receivables, deposits, borrowings and subordinated liabilities on at the acquisition date. Settlement date is considered to be the contractual date of financial asset or liability. Purchases or sales of financial assets are recognized on the settlement date, i.e. date on which the asset is delivered to the counterparty.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to acquisition or issue of financial assets and financial liabilities, except in the case when assets and liabilities measured at fair value through profit and loss.

/ii/ Classification

Subsequent valuation of financial assets and liabilities depends on their classification. The Bank classified its financial assets into the following categories:

- loans and receivables or
- available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks, other financial institution and customers.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans are approved in RSD and index-linked to RSD-EUR exchange rates. These loans are revalued at mid exchange rate of the National Bank of Serbia as at reporting date. The effects of such revaluation are included under net result from foreign exchange differences and foreign currency contract clause.

Loans and receivables are presented net of specific and collective allowances for impairment. Specific and collective allowance is made against the book value of loans and receivables that are identified as being impaired in order to reduce their value to recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal amount is recognized in the statement of profit and loss within Net impairment losses from financial assets and credit risk off-balance sheet items / Net Impairment gains from financial assets and credit risk off-balance sheet items.

Available-for-sale financial assets

Financial assets intended to be held for an indefinite period of time that can be sold due to the need to provide liquidity or changes in interest rates, foreign exchange rates or equity prices are classified as "available-for-sale financial assets". Available-for-sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) financial assets held-to-maturity or (c) financial assets at fair value through profit or loss.

After initial recognition, available-for-sale financial assets are valued at fair value that is measured as explained in these Notes 3 (i) vi.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale financial assets are recognized in profit or loss (Note 3(f) and Note 9). Impairment losses are recognized in profit or loss (Note 3(i) and Note 11).

Other fair value changes, other than impairment losses, are recognized in other comprehensive income until the financial asset is sold or impaired, where upon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

/iii/ Derecognition

Financial assets

The Bank derecognizes a financial asset (or part of a financial asset or group of financial assets) when:

- the contractual rights to the cash flows from the financial asset expire,
- the Bank transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred,
- the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the book value of the asset (or the book value allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized as profit or loss.

The Bank enters in transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

Financial liabilities

Recognition of financial liabilities ends when the obligation foreseen by the contract is fulfilled, cancelled or expired. In that case the existing financial liability is 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 conditions is treated as a cessation of recognition of the original obligation, with the simultaneous recognition of a new obligation, while the difference between the original and the new value of the liability is recognized in the income statement.

/iv/ Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

/v/ Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset of liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amounts recognized and the maturity amount, minus any reduction for impairment.

/vi/ Fair value measurement

Fair value measurement is done regarding the assumption that the transaction of property sale or transfer of an obligation takes place in the primary market for assets or liabilities, or if there is a absence of a primary market than in the most favorable market for assets or liabilities at a given moment.

The fair value of financial instruments that are traded on an active market at the balance sheet date is based on quoted market prices of supply and demand without impairment on transaction costs. The market is considered as active if the transactions of assets or liabilities are often carried out and in a sufficient scale, and therefore it can be determined the price.

The fair values of financial instruments that are not traded in the active market are determined using appropriate valuation techniques that involve: net present value techniques, comparison with similar instruments for which there are market prices and other models that include all factors that market participants consider when determining the price transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

/vii/ Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a borrower,
- restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security,
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and receivables and financial assets available for sale at both a specific asset and collective level. All individually significant loans and receivables and financial assets measured at amortized costs are assessed for specific impairment. As well as: individually significant receivables with a delay of less than 90 days that shows elements of impairment (It is estimated impact of the following events: blockade of accounts, significant decrease of capital and operating income between two periods, negative indicator of the level of debt servicing, restructuring in the last two years, deleting from The Serbian Business Registers Agency , bankruptcy / liquidation, information indicating reduced creditworthiness as a result of monitoring).

All individually significant loans and receivables and financial assets available for sale found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In spite of the existence of elements that are considered as events indicating the impairment, financial analysis (cash flow projections) indicates that the client will be able to regularly service his obligations, in accordance with the aunts, such claims are assessed on a group basis, in the same way as well as other receivables from the same homogeneous group, depending on the day of the delay and the percentage applied to the group. Loans and receivables and financial assets available for sale that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

The impairment loss before an expected restructuring is measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset;
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses on assets carried at amortized cost are measured as the difference between the book value of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on financial assets available-for-sale are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

The Bank writes off loans and receivables and financial assets available for sale when they are determined to be uncollectible (see Note 4(b)).

(j) Cash and balances with the central bank

Cash and cash equivalents include cash on the Bank's giro account, cash balance (notes and coins on hand), unrestricted balances held with central bank and highly liquid financial assets (funds with an original maturity of up to three months).

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(k) Property, plant and equipment

/i/ Recognition and measurement

Property, plant and equipment consists of buildings, equipment, other fixed assets and investments in others as fixed assets for performing business.

As at 1st of January 2012, the Bank changed its accounting policy for measurement of properties and moved from cost to revaluation model. The difference between revalued amount and book value of property at transition date was recognized as revaluation gain within revalorisation reserves. As per the revaluation model, after recognition as an asset, an item of property, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the book value does not differ materially from that which would be determined using fair value at the end of the reporting period.

In accordance with the accounting policy of the Bank, valuation of property shall be made whenever there are materially significant oscillations between the fair value and current book value. In case where such oscillations do not occur, valuations shall be made on a 3 to 5-year basis.

The Bank uses the elimination approach for property that it measures at fair value, i.e. the Bank eliminates accumulated depreciation against the gross book value of the asset.

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

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Property, plant and equipment are derecognised from the records after the alienation, due to technical protection or when the future economic benefit of the use is not expected. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the book value of the item) is recognized in the net amount within other operating income in profit or loss.

/ii/ Subsequent costs

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

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

/iii/ Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The depreciation estimate starts from the following month when these assets are put into use.

Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Description	Estimated useful life (years)	% p.a.
Property	40	2,5
Furniture and other equipment	3 – 10	10 – 33.3
IT equipment	5	20
Leasehold improvements	10	10

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. There were no changes in rates and estimated useful lives during 2017.

(n) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is ten years and amortization rate used is 10% (valid for both periods).

Amortization methods, useful lives and residual values are reassessed at each reporting date adjusted if appropriate.

(m) Impairment of non-financial assets

The book values of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

An impairment loss is recognized if the book value of an asset or cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's book value does not exceed the book value that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Deposits, borrowings and subordinated liabilities

Deposits, borrowings from banks and customers and subordinated liabilities are the Bank's source of debt funding.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, except financial liabilities that are measured at fair value through income statement. After initial recognition, they are measured at their amortized cost using the effective interest method.

(o) Provisions

A provision is recognized when the Bank has a present obligation, legal or derived, as a result of past events, and when it is probable that an outflow of resources will occur in order to settle the obligation and when it can be estimated reliably. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Bank makes provisions for potential losses on potential liabilities, for potential outflows in litigation, for the payment of employees on the basis of severance package and other potential liabilities if they meet the conditions for recognition.

In order to maintain the best possible estimates, provisions are reviewed, determined and, if necessary, corrected at each reporting date. When outflow of economic benefits for settling a legal or enforceable obligation is no longer probable, it is cancelled for the benefit of revenue. The provisions are monitored by type and may be used only for expenditure for which they were originally recognized. Provisions are not recognized for future business losses.

(p) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

(q) Employment benefits

The Bank does not have defined benefits plans or share-based remuneration options.

For services rendered by employees during the accounting period, the Bank recognizes the undiscounted amount of short-term employee benefits, expected to be paid in exchange for these services, as expense, in the income statement in the period on which earnings are related.

Pursuant to the Labour Law (Official gazette of Republic of Serbia, no 24/2005, 61/2005, 54/2009, 32/2013 and 75/2014), the Bank calculates and pays contributions for pension and health insurance and contributions for unemployment insurance at the rates determined by the Law on the basis of gross employee salaries. The Bank has a legal obligation to carry over the transfer of suspended funds in favor of the respective state funds. The Bank has no additional obligations towards employees in this respect.

The Bank does not have its own pension funds and on this basis there are no identified costs as at 31 December 2017. In accordance with the Labor Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. In the event of termination of employment, the Bank shall pay the employee who has not used a vacation in whole or in part, payment of a fee in lieu of annual leave in the average salary in the previous 12 months, in proportion to the number of days of unused annual leave. The Bank is obliged to pay retirement benefits in the amount of two average salaries in the Republic of Serbia according to the latest data published by authorities responsible for statistics. That benefit is discounted to determine its present value. This obligation is recognized in the statement of financial position.

In 2015 the Bank has defined a plan of bonus payments in order to retain and stimulate members of the Executive board, and in accordance with that plan additional provisions have been made in 2017. The payment is due after five years on the condition that all criteria defined by the plan are met.

The determined bonus is discounted to determine the present value, and the liability is recognised in the statement of financial position.

4. RISK MANAGEMENT

(a) Introduction and overview

The Bank is exposed to the following risks:

- credit risk,
- liquidity risk,
- market risk,
- operational risk and
- country risk.

This note presents information about the Bank's exposure to each of the risks mentioned, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's capital management.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Risk Management Board to evaluate risk management reporting by the line management, and advises the Executive Board on remedial or further action to reduce negative risk exposure levels.

Responsibility for implementation and effectiveness of risk management rests with the Risk Management Board. Responsibility for identifying risk and the day-to-day management of risk lies within line management. In addition to the Risk Management Board, certain risk indicators are reviewed by the Assets & Liabilities Board (ALCO) and Credit Board.

Where necessary the chairman of each Board will report information and issues to the Risk management Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Board also amends or introduces new risk management procedures. The Executive Board decides upon the necessary course of action and passes on its recommendations to the Board of Directors for approval. Where existing policy has been amended or new policy introduced, it is approved by the Board of Directors prior to its introduction.

The Bank's Internal Audit monitors compliance with the Bank's risks management policies and procedures and undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Internal Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss occurring as a result of counterpart default regarding its contractual obligations to the Bank and arises principally from the Bank's loans and receivables.

Responsibility for credit risk strategy and approval of credit policies and procedures rests with the Board of Directors.

Responsibility for application of the Bank credit policy and adopted credit risk procedures rests with the Executive Board and Chairman of the Executive Board. All employees involved in lending activities are acquainted with the content of policies and procedures that cover their area of responsibility.

The Risk Management Sector is responsible for a regular update of the Credit Policy and procedures which are its integral part. Chief Development Officer, with support of Branch Managers, is responsible for the implementation of approved policies and procedures. Independent controls are performed by the Internal Auditor, who assesses the lending activities and observance of policies and procedures.

The Bank manages credit risk through Monthly Credit Risk Reports which contain:

- delinquency reports by Client Adviser's, branch and the overall Bank,
- balance of loan portfolio at the end of the month by product, gender, sector, geographic location, maturity analysis, disbursals by loan size, job impact to data and total loans to date,
- delinquency by product,
- delinquency trend.

The Bank has developed specific models for assessment of credit risk and monitoring and collection of disbursed loans. The models known as "roll rates" and "vintage" allow the Bank to monitor the loans in terms of:

• control of collection based on the month of disbursement, immediately after the first instalment becomes due. Based on received information, the Bank can make a decision to change the business strategy i.e. to offer some specific type of loan;
• establishing the attitude of clients during loan repayment (in terms of identifying the clients who are constantly behind, clients who have improved and clients whose position has deteriorated as compared to the previous month).

The Bank's exposure to credit risk arises through its loans and receivables. The amount of credit exposure in this regard is represented by the book value of the assets on the statement of financial position.

In order to manage the level of credit risk, the Bank:

- reviews the creditworthiness of customers applying for loans, guarantees and other credit products,
- establishes credit limits on the basis of the risk assessment,
- deals with counterparties of good credit standing and takes appropriate collateral.

Customers are monitored continually and risk limits are adjusted if necessary. Risk limits also take into account various collateral types.

The Bank's exposure to credit risk arises through its loans and receivables. The amount of credit exposure in this regard is represented by the book value of the assets on the statement of financial position.

In order to identify, monitor and assess them and, above all, to prevent such risk from originating, the Bank has brought and adopted the following official documents:

- Credit risk Policy,
- Procedures on Loan Security
- Procedure for collection of B and C cash loans,
- Procedure for collection of all loans other than cash,
- Methodology for internal loan classification and assessment of impairment of balance-sheet assets and probable loss on off-balance sheet items and
- Procedure on classification of balance-sheet assets and off-balance sheet items of the Bank pursuant to NBS decision.

All these documents were all brought to the effect of preventive actions regarding credit risk, through defining the following:

- approval of a loan, including risk assessment of a customer;
- monitoring;
- loan portfolio analysis;
- loss prevention and collection procedures and
- classification of given loans and creation of allowance for impairment for estimated loan losses.

The core of risk management activities and mitigation of credit risk is detailed analysis of the creditworthiness of customers applying for loans and receivables and evaluation of provided collateral.

Credit analysis considers qualitative and quantitative analysis. Ownership structure, history of the company, market position, management competence, competition, cooperation with main buyers and suppliers, prospective of the business, customer’s timeliness in loan repayment are the main factors that qualitative analysis consists of. It also consists of industry comparison. Quantitative analysis is based on customer’s solvency and profitability based on analysis of its financial statements.

The Bank calculates a loan loss provision at the individual and group level. It is determined individually significant placements at the portfolio level, based on this division as follows:

1) business loans - EUR 11,500;
2) agricultural loans - EUR 8,600 and
3) loans for natural persons - EUR 3,400

Client’s gross exposures which are less than defined threshold of material significance, relate to the small loan portfolio and they are collectively assessed at the group level. Gross exposure bigger than the above mentioned threshold of material significance is individually assessed and is considered to be a significant exposure.

On the 31st of December 2016 and the 31st of December 2017 the Bank has used the following grades for classification:

- A – represents clients that are no more than 1 day overdue,
- B – represents clients that are more than 1 but less than 90 days overdue,
- C – represents clients that are more than 90 days overdue.

I Classification and calculation of loan loss provision at group level

Depending on estimated risk, the Bank classifies its customers in the following three groups:

Group A

These loans are estimated as loans that will be collected in total. The Bank does not expect any problems from the client regarding collection. Clients in this group settle their liabilities from 0 up to 1 days and the Bank believes that the liabilities will be primarily repaid in accordance with the agreement from the debtor's cash flow and only exceptionally from secondary sources for which there is an estimate that through their realization one can refund total book value of the receivables increased for the cost of all expenses which the Bank could have in case of collection from secondary sources. Loans from these subgroups demand only regular monitoring.

Clients whose loans are classified in this subgroup of risk have adequate income, and development potential in the market and favourable credit history with the Bank.

Also, loans to clients who belong to the category of lower credit rating, can be classified in this group, provided that they are covered by first-class services ensuring payment in the amount of invested funds.

Group B

Clients in this group settle their obligations with a delay of over 1 day and less than 90 days.

Clients within this group have a financial material status that is still satisfactory, but that is not strong enough to withstand major disruptions in their operations which is reflected in occasional overdue payments. The subgroup placement requires additional supervision and monitoring of the changes and trends in its business activities as well as the cause which led to delays in repayment and future projections of their business.

The Bank estimates that it is likely to be able to collect the total value of investments in this sub-group, regardless of the possibility that they will have to use some of the instruments of security.

There is a possibility that, for placements in these subgroups, the bank attempts to collect the payment from secondary sources, by activating one of the security proceeds received, after the monitoring results that indicate that the problems in the collection of primary sources will continue in the future.

Group C

Clients in this group of placements have delays in settlement of obligations of over 90 days.

Placements in this risk group showed weakness in the sense that the collection in most cases has been uncertain, with possibility of loss in certain scale. Probability of repayment is low, so that no further recommendation for protecting such investments is made using the Bank's resources. Collectability of these loans is solely based on forced collection.

Placements classified into risk group C were made to clients who do not fulfil their obligations and delay in settling payments is evident. There are indications that the client has serious problems in business operations and the ability to settle obligations from primary sources is decreased. It is likely that the Bank will attempt to collect the debt by activating the collateral and/or initiate the lawsuit. The possibility to collect the entire placement or part of the placement still exists but the period is considerably extended.

II Classification and calculation of loan loss provision at an individual level

For all receivables which do not belong to the portfolio of small receivables (where the amount of total receivables from clients, before reduction for the amount of the value adjustment regarding balance sheet assets and provisioning against losses on off balance sheet items as of the account day, exceeds defined threshold of material significance and loan repayment period exceeds 90 days past due the provision account will be performed individually.

As well as individually significant receivables with a delay of less than 90 days that show elements of impairment (the impact is estimated for the following events: blockade of accounts, significant decline of capital and operating income between two periods, negative indicator of debt servicing level, restructuring for the last two years, deregistration from Business Registers Agency, bankruptcy / liquidation, information that indicates reduced creditworthiness as a result of monitoring).

Should the existence of the aforementioned elements that are considered as events which indicate the impairment of financial analysis (cash flow projections) indicate that the client will not be able to regularly service his obligations, in accordance with the annuities, partially or fully, then such claims are assessed on an individual basis.

The Bank may assess the impairments on an individual basis for placements that are not considered materially significant if the need to inquire into the objective evidence of impairment for individual placements for the Bank is considered significant due to certain reasons (deceased individual, deletion from the register of economic entities with a delay longer than 30 days on the classification day, etc.)

Depending on the possibility to collect i.e. expected future cash flows, all placements with individually important exposures can be classified into two broad categories:

Group B - placements for which there is objective evidence of a decrease in their value

If a placement has been classified into a B category, primarily because of the delinquency and untimely settlement of liabilities (and not as a result of initial classification) there would be an estimate through decrease (discounting) of value as a difference between the book value of total receivables as of the day of the estimate and present value of expected cash flows in the future. In addition to materiality criteria that defines the assessment of placements on individual basis, delay of more than 90 days is also included.

Placements in category B are considered to be repaid in the most part or that the Bank will have only small amount of losses on final collection of receivables. Receivables in this group are not mainly the subject of litigation (only in special occasions, on basis of relevant information of further events that require premature litigation) because it is considered that there are more effective methods for solution and agreement with the client.

Group C – placements for which there is objective evidence of decrease in value equal to their nominal book value

This group of risks includes loans which are not expected to be collected or the likelihood of collection is minimal.

Receivables classified as C are awaiting legal proceedings based on loan agreement or with the estimation of secondary repayment sources, it has been established that the liquidation value of collateral will not be sufficient to cover the claims and costs incurred in that process. Credit capability of the client is low and loss is certain.

Risk Exposure by sectors, products and client

Bank policy is to mitigate risks by diversifying its portfolio to different business.

The Risk Management Board assesses the risk of loan approvals for certain sectors. In order to control the credit risk exposure regarding various business sectors and to provide a risk diversification, the Board of Directors passed a Decision on investment limitations to individual sectors up to 35%. Total agriculture sector, together with mixed clients must not exceed 65% relative to the entire portfolio and total mixed sector of customers, together with the retail sector also must not exceed 65% relative to the entire portfolio.

Through monthly Portfolio report and monthly report on risk management, credit exposure by sectors is being monitored for the subsectors: farming, dairy farming, pig breeding, cattle fattening, poultry raising, fruit growing, truck farming, other agricultural production (agro sector), other agro-rural production (agro-rural sector), manufacturing, construction, trade, services (business sector), pensioners and employees (retail).

The Bank also monitors the credit risk exposure regarding certain types of loans through monthly reports. The exposure is being monitored in relation to all types of loans which are being granted by the Bank. The Report shows delinquency by products separately for RSD and for EUR linked loans.

In addition, the National Bank of Serbia has some restrictions regarding total amount of loans and receivables to one client or the group or related clients:

- the total amount of loans and receivables, including off-balance sheet items, which relate to one client or the group of related clients should not exceed 25% of the Bank's capital;
- exposure to one client or a group of related clients that exceeds 10% of Tier 1 capital is considered as large exposure. It is prescribed by the National Bank of Serbia that the sum of large exposures and exposures to related parties cannot exceed 400% of the Bank's capital;
- equity investment in an entity outside of finance sector should not exceed 10% of the Bank's capital and total equity investments in entities outside of the finance sector should not exceed 60% of the Bank's capital.

For certain types of loans authorizations limits are delegated to:

Business Loans

Approval up to EUR 10 thousand is delegated to one person with the appropriate authorization right (directors of business lines, branch directors or associates in the credit risk department), while loans up to EUR 20 thousand are delegated to Mixed Credit Board (Branch Office Credit Board and the approval of one member of Credit Risk Department in the Head Office).

Approval between EUR 20 thousand and EUR 50 thousand is delegated to Head Office Credit Board 1, while approval between EUR 50 thousand and EUR 200 thousand is delegated to Head Office Credit Board 2.

Approval over EUR 200 thousand is delegated to the Head Office Credit Board 2. Also, the loan must be approved by at least four more members of the Board of Directors.

Agro Loans

Approval of up to EUR 10 thousand is delegated to one person with the appropriate authorization right (directors of business lines, branch directors or associates in the credit risk department), while loans up to EUR 20 thousand are delegated to Mixed Credit Board (Branch Office Credit Board and the approval of one member of Credit Risk Department in the Head Office).

Approval between EUR 20 thousand and EUR 50 thousand is delegated to Head Office Credit Board 1. Approval between EUR 50 thousand and EUR 200 thousand is delegated to Head Office Credit Board 2.

Approval over EUR 200 thousand is delegated to the Head Office Credit Board 2. Also, the loan must be approved by at least four more members of the Board of Directors.

Retail Loans

Approval up to EUR 7 thousand is delegated to one person with the appropriate authorization right (exclusively associates in the credit risk department), while loans up to EUR 20 thousand are delegated to the Mixed Credit Committee (Credit Committee of the branch and approval of one member of the Head Credit Risk Department).

Approval between EUR 20 thousand and EUR 50 thousand is delegated to the Head Office Credit Board 1, while approval between EUR 50 thousand and EUR 200 thousand is delegated to the Head Office Credit Board 2.

Approval above EUR 200 thousand is delegated to the Head Office Credit Board 2. Also, loan has to be approved by at least 4 member of Executive Board.

Household Loans

Loan approval of up to EUR 7 thousand is delegated to one person with the appropriate authorization right (exclusively credit risk staff), while loans up to EUR 20 thousand are delegated to a mixed Credit Committee (Credit Committee of the branch and approval of one member of the Central Bank's Credit Risk Department).

Approval between EUR 20 thousand and EUR 20 thousand is delegated to the Head Office Credit Board 1.

Approval for VIP loans is delegated to the Executive Board.

The maximum exposure to credit risk

The tables below show gross loans and receivables to banks, other financial institutions and clients with related impairment provision, as well as the classification of portfolio of small receivables and classification by groups:

Exposure at the 31st of December 2017	Loans and receivables to customers	Loans and receivables to banks and other financial institutions	Other assets	Off-balance sheet items
Individually impaired				
Category A: "Low risk"	-	-	-	-
Category B: "Medium risk"	4,729	-	-	-
Category C	58,407	-	-	-
Book value, gross	63,136	-	-	-
Less impaired	(59,563)	-	-	-
Book value, net	**3,573**	-	-	-
Portfolio based impairment				
Category A: "Low risk"	10,191,777	61,524	80,875	14,976
Category B: "Medium risk"	789,852	89	115	4,825
Category C	93,770	-	50,201	1,400
Book value, gross	11,075,399	61,613	131,191	21,202
Less Impairment	(127,425)	(80)	(45,465)	(848)
Book value, net	**10,947,973**	**61,533**	**85,726**	**20,354**
Past due but not impaired (portfolio based impairment)				
Category A: "Low risk"	2,565	-	-	-
Category B: "Medium risk"	46,594	-	-	-
Category C	4,228	-	-	-
Book value, net	**53,386**	**-**	**-**	**-**
Neither past due nor impaired (portfolio based impairment)				
Category A: "Low risk"	4,868	7	-	-
Category B: "Medium risk"	(28)	-	-	-
Category C	523	-	-	-
Book value, gross	5,362	7	-	-
Less Impairment	-	-	-	-
Book value, net	**5,362**	**7**	**-**	
Loans with negotiating terms, individually impaired				
Category A: "Low risk"	14,037	-	-	-
Category B: "Medium risk"	9,407	-	-	-
Category C	32,571	-	-	-
Book value, gross	56,014	-	-	-
Less Impairment	(39,890)	-	-	-
Book value, net	**16,124**	**-**	**-**	**-**
Loans with negotiating terms, portfolio based impairment				
Category A: "Low risk"	76,607	-	-	-
Category B: "Medium risk"	50,545	-	-	-
Category C	6,675	-	-	-
Book value, gross	133,827	-	-	-
Less Impairment	(6,510)	-	-	-
Book value, net	**127,317**	**-**	**-**	**-**
Total Book value, gross	**11,387,124**	**61,620**	**131,191**	**21,202**
Total impairment provision	**(233,388)**	**(80)**	**(45,465)**	**(848)**
Total Book value, net	**11,153,736**	**61,540**	**85,726**	**20,354**

Exposure at the 31st of December 2016	Loans and receivables to customers	Loans and receivables to banks and other financial institutions	Other assets	Off-balance sheet items
Individually impaired				
Category A: "Low risk"	-	-	-	-
Category B: "Medium risk"	11,033	-	-	-
Category C	10,291	-	-	-
Book value, gross	21,324	-	-	-
Less impaired	(13,575)	-	-	-
Book value, net	**7,749**	-	-	-
Portfolio based impairment				
Category A: "Low risk"	9,075,004	732,419	38,104	31,491
Category B: "Medium risk"	636,873	-	853	30,217
Category C	137,080	-	51,105	300
Book value, gross	9,848,957	732,419	90,062	62,008
Less Impairment	(134,337)	(479)	(49,898)	(1,985)
Book value, net	**9,714,620**	**731,940**	**40,164**	**60,023**
Past due but not impaired (portfolio based impairment)				
Category A: "Low risk"	9	-	-	-
Category B: "Medium risk"	54,605	-	-	-
Category C	13,849	-	-	-
Book value, net	**68,463**	**-**	**-**	**-**
Neither past due nor impaired (portfolio based impairment)				
Category A: "Low risk"	42,361	24	-	-
Category B: "Medium risk"	1,893	-	-	-
Category C	1,171	-	-	-
Book value, gross	45,425	24	-	-
Less Impairment	-	-	-	-
Book value, net	**45,425**	**24**	**-**	
Loans with negotiating terms, individually impaired				
Category A: "Low risk"	6,766	-	-	-
Category B: "Medium risk"	19,311	-	-	-
Category C	65,112	-	-	-
Book value, gross	91,189	-	-	-
Less Impairment	(67,079)	-	-	-
Book value, net	**24,110**	**-**	**-**	**-**
Loans with negotiating terms, portfolio based impairment				
Category A: "Low risk"	107,672	-	-	-
Category B: "Medium risk"	75,693	-	-	-
Category C	28,221	-	-	-
Book value, gross	211,586	-	-	-
Less Impairment	(20,086)	-	-	-
Book value, net	**191,500**	**-**	**-**	**-**
Total Book value, gross	**10,286,944**	**732,443**	**90,062**	**62,008**
Total impairment provision	**(235,077)**	**(479)**	**(49,898)**	**(1,985)**
Total Book value, net	**10,051,867**	**731,964**	**40,164**	**60,023**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and securities agreement. These loans are graded C in accordance with the methodology for internal classification of loans.

Past due but not impaired loans

This group includes loans and receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security it terms of the collateral available or the stage of collection of amounts owed to the Bank. Loans that have matured and have not been impaired are classified in groups A, B or C.

Loans classified as A are considered to be collected in total. Although the Bank's clients might settle their liabilities with delay up to 1 day the Bank believes that liabilities will be primarily repaid in accordance with the agreement from the client's cash flow and only exceptionally from secondary sources for which there is an estimate that through their realization one can refund total book value of the receivables increased for the cost of all expenses which the Bank could have in case of collection from secondary sources.

Loans with default from 2 to 89 days are classified into risk group B. For such loans, the Bank estimates that there is a possibility of collection either from contracted cash flows or sale of pledged collaterals. Since the clients repay their loans in monthly instalments, it happens that clients classified in risk group B repay their instalments partially.

If the unpaid debt exceeds threshold level of EUR 10, the Bank deems the entire loan risky and transfers the loan in the risk group based on the initial maturity date.

Loans with default from 90 days or more are classified in group C and are estimated as recoverable primarily from secondary sources and selling of collateral, which would compensate for the total book value of the receivables increased for the costs of all expenses which the Bank could have in case of collection from secondary sources.

Neither past due nor impaired

Neither past due nor impaired category represents accrued interest on approved loans. Accrued interest represents interest that will mature in the following period and as such is not subject to impairment testing i.e. it is not part of outstanding receivable.

Loans with renegotiated terms and the Bank's forbearance policy

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognized and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3 (i) (*/vii/*).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the client has made all reasonable efforts to pay under the original contractual terms and the client is expected to be able to meet the revised terms.

The Bank has two different types of renegotiated terms:

- restructured receivables mean the new receivables defined by an agreement, which have occurred due to deterioration of the borrower's financial position, or his/her untimely settlement of liabilities towards the Bank, as well as receivables with significant changes to originally agreed terms and conditions such as: changes to repayment term for the interest or principal, reduction of interest rate, reduction of claimed amount and other changes to liabilities of the client;
- rescheduled receivables relate to extension of the original repayment schedule based on an agreement between the client and the Bank, if the analysis of financial position of the client leads to a conclusion that the changes to important elements were not caused by deterioration of their financial position or their untimely loan repayment, but by the regular needs for financing the business activity.

If the client's outstanding amount exceeds 200,000 EUR in RSD counter value, approval for changing the significant elements of Loan Agreement is given by the Board of Directors, following the recommendation by the Head Office Credit Board.

During 2017 and 2016 the Bank changed initial terms and conditions for 89 and 176 loans, respectively.

Impairment

The Bank determines an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures, and portfolio loan loss impairment determined for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment (see Note 3 (i)*/vii/*).

Write-off policy

The Bank writes off loans and receivables (and any related impairment for impairment losses) when it is determined that the loans are uncollectible and completely impaired in accordance with the Decision on for Accounting Write-offs ("Official Gazette of RS", No. 77/2017), after considering information such as the occurrence of significant changes in the client's financial position that can result in the fact the obligation no longer can be paid, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

These loans are graded C in the Bank's internal credit risk grading system, before they are directly written off.

The Bank writes off the loans at the and of each month not later than at the end of the quarter and every write off proposal is assessed individually on Risk Management Board meeting.

The table below shows gross and net loans and receivables to customers for non-performing loans. Non-performing loans are loans with significant delinquency (delay more than 90 days) or receivables from clients who are not delinquent but whose financial position is worsening. Collection Department is responsible for the collection of these loans.

	Loans and receivables to customers	
In thousands of RSD	Gross	Net
As at 31st of December 2017		
Risk group C	196,173	65,336
Total	**196,173**	**65,336**
As at 31st of December 2016		
Risk group C	254,554	95,491
Total	**254,554**	**95,491**

Industry concentration

The breakdown of the credit risk exposure by industry sector is presented in the following table:

In thousands of RSD	2017	2016
Corporate clients		
Trade	198,639	245,768
Manufacturing	126,689	153,602
Agriculture	16,752	15,911
Construction	28,670	45,398
Transport and services	198,582	248,541
Other	98,037	97,052
Total	**667,369**	**806,272**
Retail clients		
Private individuals	8,502,739	7,531,781
Micro, small and medium size enterprises	2,217,016	1,948,891
Total	**10,719,755**	**9,480,672**
Allowance for impairment	**(233,388)**	**(235,077)**
Balance as at 31st of December	**11,153,736**	**10,051,867**

The Bank has not made any placements to entities outside of the Republic of Serbia in 2016 and 2017.

Loan Collaterals

Collateral is realised in cases when client does not meet his obligation to repay the loan.

The Bank holds a collateral against loans and receivables to customers in the form of mortgage interests over property, pledge, guarantors, and bills of exchange.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	Loans and advances to customers		Loans and advances to banks and other financial institutions	
In thousands of RSD	2017	2016	2017	2016
Against individually impaired				
Property	148,176	58,829	-	-
Cash deposits	595	-	-	-
Against collectively impaired				
Property	1,951,390	3,162,901	-	-
Cash deposits	49,351	122,854	-	-
Total	**2,149,512**	**3,344,584**	**-**	**-**

Estimates of fair value are based on the value of a collateral assessed at the time of borrowing. After valuation at the moment of borrowing valuations are done by certified appraisers once in every tree years for immovable property and for other types of collateral even more frequent, depending on volatility of value for type of collateral.

Types of a collateral accepted by the Bank are presented as follows:

- one or more individual co-guarantors who signed a bill of exchange and submitted the salary or pension withholding agreement,
- blank bills of exchange issued by an entrepreneur or legal entity-loan beneficiary
- pledge on movable property,
- mortgage on immovable property,
- cash deposit without special purpose,
- insurance policy in favour of the Bank.

Collection by activating the security instruments is executed through the Report on activating security instruments and payment from their activation. Improvement in collection of loans secured by a mortgage on immovable property will be reviewed at the regular meetings of the NPL's management Committee.

The table below stratifies credit exposures from loans and receivables secured by mortgage on immovable property according to ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance.

2017	Gross exposure	Impairment provision	Net exposure	Impairment provision without collateral usage	Net exposure without collateral usage
<50%	380,903	(15,908)	364,995	(35,570)	345,333
51%-70%	214,364	(6,832)	207,532	(10,940)	203,424
71%-90%	90,051	(8,019)	82,032	(10,492)	79,559
90%-100%	30,238	(1,046)	29,192	(1,844)	28,394
>100%	28,126	(677)	27,449	(1,890)	26,236

2016	Gross exposure	Impairment provision	Net exposure	Impairment provision without collateral usage	Net exposure without collateral usage
<50%	442,122	(4,627)	437,495	(20,442)	421,680
51%-70%	171,606	(2,915)	168,690	(6,174)	165,432
71%-90%	67,134	(5,403)	61,731	(8,331)	58,803
90%-100%	28,814	(1,312)	27,502	(1,874)	26,940
>100%	111,741	(2,506)	109,235	(3,576)	108,164

The required reserve for estimated losses

The Bank calculates required reserve for estimated losses that may arise in respect of balance sheet assets and off-balance sheet items, in accordance with the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items (RS Official Gazette, No. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2016. 38/2016, 61/2017, 69/2017 and 91/2017, 101/2017 and 114/2017).

The required reserve for estimated losses of each client is calculated as the sum of positive differences between the estimated loss reserve determined in accordance with the Decision and the established amount of allowances for impairment of balance sheet assets and off-balance sheet loss provision determined in accordance with the Bank's internal Methodology for Internal Loan Classification and Assessment of Impairment of Balance Sheet Assets and Probable Loss of Off-Balance Sheet Items.

The required reserve for estimated losses on balance sheet assets and off-balance sheet items is a deductible from the Bank's regulatory Tier 1 capital in accordance with the Decision on Capital Adequacy of Banks (RS Official Gazette, No. 46/2011, 6/2013, 51/2014, 85/2016 and 103/2016).

Repossessed assets

Details of financial and non-financial assets obtained by the Bank by repossession of assets that were loans and receivables collaterals are shown below.

In thousands RSD	2017	2016
Real Estate	25,323	31,819
Total	**25,323**	**31,819**

The treatment of assets acquired by taking possession of collateral is prescribed by the Procedure on Assets Acquired through Collection. The manner of using such assets in Bank's operations/sales terms is determined on an individual basis and the decision is passed by the authorized body.

(c) *Liquidity risk*

Liquidity risk is the risk that the Bank will not be able to meet its due liabilities. It arises from the mismatch between cash inflows and outflows (structural liquidity risk) or the inability to sell / convert financial instruments into cash in an acceptable period and at an adequate price (financial instruments liquidity risk). The Bank manages its assets and liabilities so as to ensure that it is able to fulfil all outstanding obligations at all times and that its clients can access their assets in accordance to the agreed deadlines without limitation.

The Assets-Liability Committee (ALCO) is responsible for monitoring the liquidity risk, managing the liquidity risk, and proposing measures and activities for maintaining liquidity, adjusting the maturity structure, a business plan in the event of a liquidity crisis and other measures significant for the financial stability of the Bank to the Executive Board. The Chairman of the Risk Management Committee is also a member of the ALCO.

The Bank monitors its exposure to the liquidity risk at the level of externally and internally prescribed limits. The Bank monitors the liquidity of the Bank every day, within the prescribed deadlines and delivers it to the National Bank of Serbia in the prescribed manner. Internal indicators of liquidity are monitored by the Bank through internal reports on the dinar and foreign currency liquidity which are delivered to the Bank's management on a daily basis.

The National Bank of Serbia has prescribed the minimum value of the liquidity indicator that represents the ratio of the sum of liquid assets of first and second order and the sum of liabilities without a contractual maturity and liabilities with an agreed maturity within the following month.
The prescribed minimum values are:

- 1.0 for the average liquidity indicator for all days of the month
- 0.9 longer than three consecutive days
- 0.8 for when the calculation applies to one working day

The ratio of liquid assets to short term liabilities at the reporting date and during the reporting period was as follows:

%	**2017**	**2016**
As at 31st of December	3.90	2.63
Average for the period	3.15	3.70
Maximum for the period	4.19	5.51
Minimum for the period	1.83	2.63

The National Bank of Serbia has prescribed the minimum value of the rising liquidity indicator which represents the ratio of the collection of liquid assets of the first order and the sum of liabilities without contractual maturity and the liabilities with an agreed maturity date in the following month. The prescribed minimum values are:

- 0.7 for the average liquidity indicator for all days of the month
- 0.6 longer than three consecutive days
- 0.5 for when the calculation applies to one working day

A narrow liquidity indicator on the reporting date and during the reporting period:

%	**2017**	**2016**
As at 31st of December	3.12	2.15
Average for the period	2.45	2.88
Maximum for the period	3.35	4.61
Minimum for the period	1.48	1.85

The Bank devotes special attention to the liquidity measures defined by Basel III regulations, which the National Bank of Serbia prescribed as mandatory in 2017. The indicator of liquid assets coverage (LCR) is monitored on a monthly basis as a ratio of the Bank's liquidity buffer and the net outflow of liquidity over a period of 30 calendar days. The goal of the Bank is to maintain a high enough level of quality liquid assets so that it can withstand the stress scenario over a period of 30 days, or to cover net outflows of liquid assets.

The internal limit of liquidity asset coverage levels is included in the internal system of risk management limits and amounts to 125%, which is above the level prescribed by the regulator. In all reporting periods in 2017, the Bank maintained the LCR at a level above the internal limits.

Bank’s liquidity reserves are as follows:

In thousands RSD	2017 Book value	2017 Fair value	2016 Book value	2016 Fair vale
Balances with central bank	1,946,208	1,946,208	1,410,690	1,410,690
Balances with other banks	54,666	54,666	407,589	407,589
Other cash and cash equivalents	105,436	105,436	131,055	131,055
Unencumbered debt securities	300,615	300,615	164,534	164,534
Total liquidity reserves	**2,406,925**	**2,406,925**	**2,113,868**	**2,113,868**

In order to manage the liquidity risk, liquidity gaps are calculated, where the data used for analyzing the balance sheet structure of the Bank also provides the basis for establishing the structure and concentration indicators that are used to determine the level of the liquidity risk.

The table below shows the carrying amounts of non-deductible financial assets and liabilities that are expected to be recovered or settled after more than 12 months from the reporting date.

In thousands of RSD	2017	2016
Loans and receivables to clients	6,176,949	5,533,938
Financial assets	**6,176,949**	**5,533,938**
Deposits and other liabilities to banks, financial institutions and central bank	2,205,949	1,568,600
Deposits and other liabilities to other customers	2,782,067	2,008,670
Subordinated liabilities	710,836	987,778
Financial liabilities	**5,698,852**	**4,565,048**

The following table shows the analysis of the total assets and liabilities of the Bank according to the respective maturity groups, according to the remaining maturity on 31st of December 2017.

In thousands of RSD	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Without maturity	Total
Assets							
Cash and balances with central bank	2,051,421	-	-	-	-	223	**2,051,645**
Financial assets available for sale	-	-	300,615	-	-	-	**300,615**
Loans and receivables to banks and other financial institutions	61,538	-	-	-	-	-	**61,540**
Loans and receivables to customers	505,495	834,383	3,636,911	5,640,095	536,853	-	**11,153,736**
Intangible assets	-	-	-	-	-	115,422	**115,422**
Property, plant and equipment	-	-	-	-	-	311,332	**311,332**
Deferred tax assets	90,048	-	-	-	-	38,959	**129,007**
Total assets	**2,708,502**	**834,383**	**3,937,526**	**5,640,095**	**536,853**	**465,936**	**14,123,297**
Liabilities and equity							
Deposits and other liabilities to banks, financial institutions and central bank	136,029	268,455	901,911	2,185,949	20,000	-	**3,512,344**
Deposits and other liabilities to other customers	1,144,373	430,619	2,095,316	2,781,176	891	-	**6,452,373**
Subordinated liabilities	-	-	473,891	-	710,836	18,471	**1,203,198**
Provisions	-	-	-	-	-	48,391	**48,391**
Current tax liabilities	-	-	6,503	-	-	-	**6,503**
Deferred tax liabilities	-	-	2,295	-	-	-	**2,295**
Other liabilities	151,389	-	-	-	-	13,586	**164,975**
Equity	-	-	-	-	-	2,733,218	**2,733,218**
Total liabilities and equity	**1,431,791**	**699,073**	**3,479,916**	**4,967,124**	**731,727**	**2,813,665**	**14,123,297**
Net liquidity gap as at 31st of December 2017	**1,276,711**	**135,310**	**457,610**	**672,971**	**(194,874)**		
Cumulative liquidity gap	**1,276,711**	**1,412,021**	**1,869,632**	**2,542,603**	**2,347,729**		

The following table shows the analysis of assets and liabilities of the Bank according to the respective maturity groups, according to the remaining maturity on 31st of December 31 2016:

In thousands of RSD	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Without maturity	Total
Assets							
Cash and balances with central bank	1,541,509	-	-	-	-	236	1,541,745
Financial assets available for sale	-	-	164,534	-	-	-	164,534
Loans and receivables to banks and other financial institutions	731,964	-	-	-	-	-	731,964
Loans and receivables to customers	417,959	788,999	3,310,971	5,045,812	488,126		10,051,867
Intangible assets	-	-	-	-	-	103,556	103,556
Property, plant and equipment	-	-	-	-	-	325,233	325,233
Deferred tax assets	-	-	-	-	-	999	999
Other assets	39,299	-	-	-	-	45,894	85,193
Total assets	**2,730,731**	**788,999**	**3,475,505**	**5,045,812**	**488,126**	**475,918**	**13,005,091**
Liabilities and equity							
Deposits and other liabilities to banks, financial institutions and central bank	60,420	242,472	644,695	1,554,600	14,000	-	2,516,187
Deposits and other liabilities to other customers	1,313,426	484,032	3,080,381	2,007,590	1,080	-	6,886,509
Subordinated liabilities	-	-	-	493,889	493,889	14,515	1,002,293
Provisions	-	-	-	-	-	27,283	27,283
Current tax liabilities	-	-	17,690	-	-	-	17,690
Deferred tax liabilities	146,928	-	-	-	-	25,427	172,355
Other liabilities	-	-	-	-	-	2,382,774	2,382,774
Total liabilities and equity	**1,520,774**	**726,504**	**3,742,766**	**4,056,079**	**508,969**	**2,449,999**	**13,005,091**
Net liquidity gap as at 31st of December 2016	**1,209,957**	**62,495**	**(267,261)**	**989,733**	**(20,843)**		
Cumulative liquidity gap	**1,209,957**	**1,272,452**	**1,005,191**	**1,994,924**	**1,974,081**		

(d) Market Risks

Market risk is the risk of a change in the balance sheet position of the Bank due to a negative impact of changed market rates or values such as interest rates, exchange rate differences, securities prices, and the outcome is the loss of earnings and capital.

The objective of managing market risk is to manage and control exposure to market risks within limits that are considered acceptable from the aspect of risk appetite and business strategy of the Bank.

/i/ Interest Rate Risk

Interest rate risk arises due to the possibility that changes in interest rates may affect future cash flows or the fair value of financial instruments. The Bank is exposed to changes in the level of market interest rates which can result in a significant impact on its financial position and cash flows through an increase or decrease of interest margins.

The purpose of managing interest rate risk as a segment of assets and liabilities management is to optimize the amount of net interest income, maintain a market interest rate at a level that is consistent and in line with the Bank's business strategy.

In addition, the Bank is focused on interest rate spreads. The Bank is aware that the interest rate variability of the so-called "interest spread" is a potential indicator of interest rate risk. This spread is regulated by the price of the loan, the price of the deposits and the activities in the money market. The Bank endeavors to have neither the lowest nor the highest interest rates on the market for loans and deposits. The loan prices are determined to achieve a fair return on the owner's investment. Deposit prices provide fair treatment for the Bank's clients and are reasonably competitive without increasing the costs for the Bank.

The Board of Directors has established the interest rate risk exposure limits based on the valid regulations of the National Bank of Serbia and the internal methodologies that follow the level of exposure of the Bank's balance sheet positions to possible unfavorable movements in rates on the market,

The Assets and Liabilities Management Committee, based on macroeconomic analysis and forecasting, the business plan, forecasts of conditions for achieving liquidity and analysis and forecasts market interest rate trends, undertakes activities aimed at:

- adequate determination of the net interest margin from the aspect of the impact on the Bank's current financial position and the adequacy of the Bank's capital level;
- aligning the characteristics of interest-sensitive assets and liabilities in terms of the level of interest rates with the same maturity and the time interval within which the interest rate is re-determined;
- ensuring maturity compliance of interest-sensitive assets and liabilities for which the fixed interest rate has been determined, and
- ensuring compliance of time limits for re-determination of interest rates in case of variable interest rates;

The finance sector monitors and reports the risk of maturity mismatch and the re-establishment of prices or the analysis of disparities on a monthly basis to the Asset-Liability Committee (ALCO). Quarterly reports are presented to the members of the Managing Board through the ALM committee.

In managing interest rate risk, the Bank uses a simulation of expected and extreme interest rate changes and projects the impact of those rates on the income statement. The risk of interest rates is also monitored by the analysis of the sensitivity - scenario analysis.

When preparing the report for measuring interest rate risk, the Bank takes into account all positions in assets, liabilities and off-balance sheet items, as well as all other remunerations and expenses that are exposed to interest rate risk. Fixed interest rate instruments are deployed in time baskets by the remaining maturity. Variable interest rate instruments are placed in time baskets according to the remaining time to the change in the interest rate. Positions with built-in options are arranged according to the agreed maturity. Positions without contractual maturity are included in the time segment with the shortest maturity date, i.e. up to 1 year, with 30% of their status being shown in a time basket with a maturity of up to 1 month and 70% in a time basket from 6 months to one year. The impact of early loan repayment and early withdrawal of deposits is also taken into account on the basis of an analysis of historical series and the design of their results for periods in the future.

Gap analysis is used to measure the risk of net interest income arising due to the reassessment of prices of assets and liabilities over time. This analysis includes the effects of the time maturity mismatch of the base rates, as well as the potential risks arising from the options embodied in the contracts. The risk is measured based on the size and duration of potential changes in interest rates. The Bank is aware that maintaining a synchronized position throughout the entire period in the GAP reports does not provide for interest rate risk. The Bank is aware of the following limits in the gap reporting:

- the risk can be hidden within the re-establishment of prices;
- interest rates on assets and liabilities are not always changed together;
- exposure arises through new jobs.

In order to avoid this type of limitation, the Bank uses a simulation (assumptions) for the purpose of designing the future balance sheet structure and applying different interest rate scenarios.

The following table contains an analysis of the Bank's exposure to interest rate risk on December 31, 2017. The balance positions are classified according to the time remaining until the next re-pricing calculation:

In thousands of RSD	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	More than 5 years	Non-interest bearing	**Total**
ASSETS							
Cash, cash equivalents and assets with the central bank	1,474,676	-	-	-	-	576,969	**2,051,645**
Available-for-sale financial assets		-	300,615	-	-	-	**300,615**
Loans and receivables from banks and other financial institutions	59,953	-	-	-	-	1,586	**61,540**
Loans and receivables from customers	481,548	834,383	3,643,239	5,633,767	536,853	23,946	**11,153,736**
Intangible assets	-	-	-	-	-	115,422	**115,422**
Property, plant and equipment	-	-	-	-	-	311,332	**311,332**
Other assets	-	-	-	-	-	129,007	**129,007**
TOTAL ASSETS	**2,016,177**	**834,383**	**3,943,854**	**5,633,767**	**536,853**	**1,158,262**	**14,123,297**
LIABILITIES AND EQUITY							
Deposits and other liabilities to banks, other financial organizations and the central bank	532,984	734,455	1,090,405	1,046,455	20,000	88,046	**3,512,344**
Deposits and other liabilities to other customers	1,119,724	429,289	2,009,163	2,725,720	891	167,585	**6,452,373**
Subordinated obligations	-	-	947,782	-	236,945	18,471	**1,203,198**
Reservations	-	-	-	-	-	48,391	**48,391**
Current tax liabilities	-	-	-	-	-	6,503	**6,503**
Deferred tax liabilities	-	-	-	-	-	2,295	**2,295**
Other obligations	-	-	-	-	-	164,975	**164,975**
Equity	-	-	-	-	-	2,733,218	**2,733,218**
TOTAL LIABILITIES AND EQUITY	**1,652,708**	**1,163,744**	**4,047,350**	**3,772,175**	**257,837**	**3,229,483**	**14,123,297**
Net interest gap on 31 December 2017	**363,469**	**(329,360)**	**(103,496)**	**1,861,592**	**279,017**		

The following table contains an analysis of the Bank's exposure to interest rate risk as of December 31, 2016. The balance sheet items are classified according to the time remaining until the next re-pricing calculation:

In thousands of RSD	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	More than 5 years	Non-interest bearing	**Total**
Assets							
Cash and balances with the central bank	1,541,509	-	-	-	-	236	1,541,745
Available-for-sale financial assets	-	-	164,534	-	-	-	164,534
Loans and receivables from banks and other financial organizations	731,964	-	-	-	-	-	731,964
Loans and receivables from customers	417,959	788,999	3,310,971	5,045,812	488,126		10,051,867
Intangible assets	-	-	-	-	-	103,556	103,556
Property, plant and equipment	-	-	-	-	-	325,233	325,233
Deferred tax assets	-	-	-	-	-	999	999
Other assets	39,299	-	-	-	-	45,894	85,193
TOTAL ASSETS	**2,730,731**	**788,999**	**3,475,505**	**5,045,812**	**488,126**	**475,918**	**13,005,091**
Liabilities and equity							
Deposits and other liabilities to banks, other financial organizations and the central bank	60,420	242,472	644,695	1,554,600	14,000	-	2,516,187
Deposits and other liabilities to other customers	1,313,426	484,032	3,080,381	2,007,590	1,080	-	6,886,509
Subordinated obligations	-	-	-	493,889	493,889	14,515	1,002,293
Reservations	-	-	-	-	-	27,283	27,283
Current tax liabilities	-	-	17,690	-	-	-	17,690
Other obligations	146,928	-	-	-	-	25,427	172,355
Equity	-	-	-	-	-	2,382,774	2,382,774
TOTAL LIABILITIES AND EQUITY	**1,520,774**	**726,504**	**3,742,766**	**4,056,079**	**508,969**	**2,449,999**	**13,005,091**
Net interest gap on 31. December 2016	**1,209,957**	**62,495**	**(267,261)**	**989,733**	**(20,843)**		
Cumulative liquidity gap	**1,209,957**	**1,272,452**	**1,005,191**	**1,994,924**	**1,974,081**		

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100, 200 and 300 basis point (bp) parallel fall or rise in all yield curves in Serbia. Analysis of the Bank's sensitivity to an increase or decrease in market interest rates as at 31st of December 2017 and 31st of December 2016 are as follows:

The effects of changes in market interest rates on equity:

	100 bp parallel increase	100 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease	300 bp parallel increase	300 bp parallel decrease
As at 31st of December 2017						
Interest rate change on						
Assets	9.21%	-9.21%	18.42%	-18.42%	27.64%	-27.64%
Liabilities	6.26%	-6.26%	12.51%	-12.51%	18.77%	-18.77%
Cumulative	2.96%	-2.96%	5.91%	-5.91%	8.87%	-8.87%
Limit	-20.00%	20.00%	-20.00%	20.00%	-20.00%	20.00%
As at 31st of December 2016						
Interest rate change on						
Assets	9.27%	-9.27%	18.55%	-18.55%	27.82%	-27.82%
Liabilities	6.72%	-6.72%	13.45%	-13.45%	20.17%	-20.17%
Cumulative	2.55%	-2.55%	5.10%	-5.10%	7.65%	-7.65%
Limit	-20.00%	20.00%	-20.00%	20.00%	-20.00%	20.00%

Effect of changes in market interest rates on the statement of profit and loss:

	100 bp parallel increase	100 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease	300 bp parallel increase	300 bp parallel decrease
As at 31st of December 2017						
Interest rate change on						
Assets	13.27%	-13.27%	26.54%	-25.54%	39.81%	-39.81%
Liabilities	9.01%	-9.01%	18.02%	-18.02%	27.04%	-27.04%
Cumulative	4.26%	-4.26%	8.52%	-8.52%	12.77%	-12.77%
As at 31st of December 2016						
Interest rate change on	13.16%	-13.16%	26.31%	-26.31%	39.47%	-39.47%
Assets	9.54%	-9.54%	19.08%	-19.08%	28.62%	-28.62%
Liabilities	3.62%	-3.62%	7.23%	-7.23%	10.85%	-10.85%

The stress test for net interest income is created at a monthly level and measures the possible effects of the most unfavorable movement of the yield curve by +/- 2% for positions exposed to interest rate risk denominated in euros, and the most unfavorable trend of yield curve on dinars by +/- 4% for positions exposed to interest risk denominated in dinars in relation to defined risk limits.

/ii/ Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Foreign currency risk arises in cases of mismatch in assets and liabilities denominated in foreign currencies. The Bank is potentially at risk through its foreign currency position by granting and taking loans with foreign currency clauses, maintaining funds with correspondent banks, undertaking international payment orders, offering foreign currency accounts, and operating an exchange till.

The Bank's maximal foreign exchange risk ratio (Open Foreign Currency Position) at the end of each business day is determined by the National Bank of Serbia regulations. In order to reduce the potential negative impact of the exchange rate fluctuations on the structure of foreign currency assets and liabilities, the Bank monitors, measures and adjusts the foreign currency position on a daily basis.

Exposure to currency risk

In thousands of RSD	USD	EUR including *RSD with EUR clause*	CHF	RSD	Total
Assets					
Cash and balances with central bank	3,708	508,181	2,472	1,537,284	2,051,645
Financial assets available for sale	-	-	-	300,615	300,615
Loans and receivables to banks and other financial institutions	2,674	58,805	62	-	61,540
Loans and receivables to customers	-	6,003,332	-	5,150,405	11,153,736
Intangible assets	-	-	-	115,422	115,422
Property, plant and equipment	-	-	-	311,332	311,332
Other assets	-	6,922	-	122,085	129,007
Total assets	**6,381**	**6,577,240**	**2,534**	**7,537,143**	**14,123,297**
Liabilities and Equity					
Deposits and other liabilities to banks, financial institutions and central bank	-	1,720,284	-	1,792,060	3,512,344
Deposits and other liabilities to other customers	6,787	3,604,218	2,399	2,838,970	6,452,373
Subordinated liabilities	-	1,209,536	-	-6,338	1,203,198
Provisions	-	-	-	48,391	48,391
Current tax liabilities	-	-	-	6,503	6,503
Deferred tax liabilities	-	-	-	2,295	2,295
Other liabilities	1	2,082	-	162,891	164,975
Equity	-	-	-	2,733,218	2,733,218
Total Liabilities and Equity	**6,788**	**6,536,120**	**2,399**	**7,577,990**	**14,123,297**
Net currency gap as of 31st of December 2017	**(408)**	**41,119**	**135**	**(40,847)**	
Net currency gap as of 31st of December 2016	**5,609**	**16,370**	**319**	**(22,298)**	

Foreign currency sub-balance sheet, apart from assets and liabilities denominated in foreign currency, includes assets and liabilities in dinars with a currency clause.

The following table shows effects on regulatory capital and profit due to change by 20% of foreign currencies:

31-Dec-17	USD	EUR	CHF	Total
Effect of currency increase by 20%	(82)	8,224	27	8,169
Effect to regulatory capital	0.00%	0.32%	0.00%	0.32%
Effect to profit	-0.02%	2.33%	0.01%	2.31%

31-Dec-16	USD	EUR	CHF	Total
Effect of currency increase by 20%	1,122	3,274	64	4,460
Effect to regulatory capital	0.05%	0.15%	0.00%	0.20%
Effect to profit	0.33%	0.98%	0.02%	1.33%

(e) Country risk

Country risk is the probability of incurring losses to the Bank due to the inability of persons or companies outside of Serbia to repay obligations due to political, social and economic environment of the country of the client. Risks include:

- political-economic risk, where loss is probably due to political restrictions created by the acts of the country, state bodies or other bodies in the country of the client, and/or because of the general economic condition in the country.
- transfer risk, where probability of loss due to currency restrictions created by the acts of the country, state bodies or other bodies in the country of the client, and/or because of the general economic condition in the country.

The Bank has established limits of exposure per client’s country of origin. In case of identified risk concentration the limits have been established per geographical regions.

The following table summarizes adopted limits per country of origin:

Country	Limit (EUR)	Country	Limit (EUR)
Germany	12,000,000	United Kingdom	6,000,000
Netherlands	6,000,000	Switzerland	6,000,000
USA	6,000,000	Belgium	3,000,000
Austria	6,000,000	Hungary	1,800,000
Luxembourg	6,000,000	France	6,000,000
Italy	5,000,000	Slovenia	3,000,000
Montenegro	1,800,000		

The Trading Department and ALM monitor risk on daily basis.

The Risk Sector submits to the Board quarterly reports about country risk exposure.

The Board of Directors reviews the adequacy of the system used to manage country risk and approve any policy changes that are needed.

(f) Operational risks

Operational risk is the risk of the possibility of adverse effects on the financial results and capital of the Bank due to employees' failures, inadequate internal procedures and processes, inadequate management of information and other systems, as well as unpredictable external events. Operational risk includes legal risk.

The objective of managing the Bank's operational risk is to minimize operating risk losses with an acceptable level of exposure to the operational risk. The Bank manages operational risk at an individual organizational work level and at the Bank's level. The assessment of the operational and risk of the information system at the Bank's level is a comprehensive process that rounds up the monitoring of operational risk of the Bank.

The operational risk management system involves the definition of policies and procedures that the Bank should provide:

1. Defined competencies and responsibilities in the process of taking over activities and managing operational risk;
2. A system of reporting and information on operational risk.

The Executive Board of the Bank is responsible for implementing the Operational Risk Management Policy adopted by the Board of Directors and managing the policy with the adopted Operational Risk Management Procedure. The Executive Board of the Bank, at least once during the business quarter, analyzes the efficiency in the implementation of established procedures for managing the operational risk the Bank is exposed to and reports on it to the Board of Directors.

The Risk Division is responsible for the operational implementation of the Policy and Procedures of managing the operational and information system risk. The Risk Division identifies, measures and monitors and manages operational risk both at the level of individual organizational unit and at the Bank's level, and at least once a month reports on the Risk Management Committee to the Executive Board of the Bank.

The managers of all organizational parts of the Bank are responsible for assessing the operational risk to the level of their competence, as well as implementing measures to reduce / eliminate operational risk. All employees are responsible for the occurrence of operational risk and in accordance with their powers and responsibilities are in charge of managing operational risk.

The Bank has determined that the capital requirement for operational risk is calculated using the access to the basic indicator for calculating capital adequacy for operational risk (BIA).

For the purpose of recording operational risk events, the Bank has established the Database (losses) of operational risk in the main information system. This database serves as a basis for statistical processing - analysis, and reporting on operational risks.

Through the adopted policies and procedures, the Bank's operational risk management system has been defined with four basic phases:

1. Identification of existing sources of operational risk and sources of operational risk that may arise from the introduction of new systems, business products or activities;
2. Measurement of operational risk, accurate and timely defined risk assessment;
3. Operational risk treatment, maintaining that risk at a level acceptable to the risk profile of the Bank, mitigating and / or mitigating consequences, transferring, dividing or avoiding risks;
4. Control and monitoring of operational risk through monitoring of the implementation of decisions, analysis of the situation, changes and trends of risk exposure.

(g) Capital management

The Bank's regulator, the National Bank of Serbia (NBS), sets and monitors the Bank's capital requirements. In 2017, a new Decision on capital adequacy was applied, methodologically based on Basel III principles. In order to achieve the existing capital requirements, the NBS requires the Bank to maintain the minimum prescribed capital adequacy ratio of 8%, which represents the percentage ratio of capital and risk assets of the Bank, a minimum indicator of the capital adequacy of 6.5% of the Bank, which represents a percentage of the basic capital and risk assets of the bank and a minimum indicator of the adequacy of the basic share capital of 4.5% of the Bank, which represents the percentage ratio of the share capital and risky assets of the bank.

Risk assets are the sum of the following amounts:

- the total amount of the risk weighted exposure to credit risk, the counterparty risk, the risk of a decrease in the value of the purchased receivables, for all the business activities of the bank, except for trading book activities, and the risk of settlement;
- Capital requirements for price risk for trading book activities, and for large exposures,
- Capital requirements for foreign exchange risk, for risk of settlement / delivery, risk of settlement / delivery on free delivery, and capital requirements for commodity risk, for all business activities of the Bank, multiplied by the reciprocal value of the capital adequacy indicator;
- Capital requirement for the risk of adjusting the credit exposure for all business activities of the bank, multiplied by the reciprocal value of the capital adequacy indicator;
- Capital requirement for operational risk multiplied by the reciprocal value of the indicator of adequacy;
- The risk weighted exposure to a counterparty risk for trading book activities based on contracts from and credit derivatives, repurchase transactions, securities or commodity loan or borrowing contracts, securities trading transactions and long-term transactions reconciliation.

The regulatory capital of the Bank is the sum of basic capital and supplementary capital, whereby the basic capital of the Bank makes the sum of basic share capital and additional basic capital.

The basic share capital of the bank makes up the following elements deducted for deductible items:

- shares and other instruments of basic share capital;
- the related emission premiums with the instruments of the basic share capital, ie, the amount paid above the nominal value of these instruments;
- bank profits;
- revaluation reserves and other unrealized gains;
- reserves from profit and other reserves of the bank;
- reserves for general banking risks.

Deductions from basic share capital are:

- current and previous year losses, as well as unrealized losses;
- intangible assets, including goodwill, deducted by the amount of deferred tax liabilities that would cease to exist in case of impairment or cessation of recognition of intangible investments in accordance with IFRS / IAS;
- deferred tax assets that depend on the future profitability of the bank, in accordance with the regulations;
- negative amount - for banks that have received approval from the National Bank of Serbia for the implementation of the IRB approach;
- assets in a pension fund with defined benefits in the balance sheet of the Bank;
- direct, indirect and synthetic investments of the Bank in their own equity instruments, including own equity instruments that the Bank is or may be required to repurchase under a contractual obligation;
- direct, indirect and synthetic investments in the instruments of the basic share capital of the financial sector entities that have mutual investments in the Bank, which were performed to present a higher amount of the Bank's capital;
- the applicable amount of direct, indirect and synthetic investments of the Bank in the instruments of the basic share capital of a person in the financial sector in which the Bank does not have a significant investment;
- applicable amount of direct, indirect and synthetic investments of the bank in the instruments of the basic share capital of a person in the financial sector in which the Bank has significant investments;
- the amount for which the deductible item from the additional share capital of the Bank exceeds the amount of the additional share capital of the bank;
- the amount of exposure that meets the requirements for the application of risk weight of 1.250%, which the Bank decides to refuse from the basic share capital instead of applying that weight:

- participation in persons other than persons in the financial sector in the amount of more than 10% of the capital of such persons, that is, the participation that enables the effective exercise of a significant influence on the management of a legal person or on the business policy of that legal person;
- the amount of tax relating to the elements of the basic share capital that can be predicted at the time of the capital calculation, unless the bank has previously corrected the amount of the elements of the basic share capital in the amount in which these taxes reduce the amount to which the elements of the basic share capital can be used to cover the risk or losses;
- the amount of required reserves for estimated losses on balance sheet assets and off-balance sheet items of the Bank,

For the purpose of calculating the basic share capital during the year, the Bank is required to determine the profit / loss at the end of each accounting period and to deduct all losses from the basic share capital as they arise in the form of unrealized losses.

The additional share capital of the Bank is the sum of the following elements deducted for deductible items:

- shares and other fixed capital instruments
- the related emission premiums with the instruments referred to in subparagraph 1, i.e. the amount paid above the nominal value of these instruments,
- direct, indirect and synthetic investments of the Bank in own instruments of additional basic capital, including instruments that the Bank is obliged to repurchase on the basis of the existing contractual obligation;
- direct, indirect and synthetic investments of the Bank in the instruments of additional basic capital of the persons in the financial sector that have mutual investments in the Bank that were executed in order to present a higher amount of the bank's capital;
- the applicable amount of direct, indirect and synthetic investments of the Bank in the instruments of additional basic capital of persons in the financial sector in which the Bank does not have a significant investment;
- direct, indirect and synthetic investments of the Bank in the instruments of additional basic capital of the persons in the financial sector in which the bank has significant investments, excluding positions on the basis of holding a patronage of the issue of securities held for five working days or shorter;
- the value for which the deductible items from the Bank's supplementary capital exceed the amount of the Bank's supplementary capital;
- all taxes relating to elements of additional basic capital that can be anticipated at the time of the capital calculation, unless the Bank has previously corrected the amount of these elements - in the amount in which these taxes reduce the amount to which the elements of the additional core capital of the Bank may be used to cover the risk or losses.

Deductible items from share capital are:

- direct, indirect and synthetic investments of the Bank in its own instruments of additional basic capital, including instruments that the Bank is obliged to repurchase on the basis of the existing contractual obligation;
- direct, indirect and synthetic investments of the Bank in the instruments of additional basic capital of the persons in the financial sector that have mutual investments in the Bank that were executed in order to present a higher amount of the bank's capital;
- the applicable amount of direct, indirect and synthetic investments of the Bank in the instruments of additional basic capital of persons in the financial sector in which the Bank does not have a significant investment;
- direct, indirect and synthetic investments of the Bank in the instruments of additional basic capital of the persons in the financial sector in which the bank has significant investments, excluding positions on the basis of holding a patronage of the issue of securities held for five working days or shorter;
- the value for which the deductible items from the Bank's supplementary capital exceed the amount of the Bank's supplementary capital;

- all taxes relating to elements of additional basic capital that can be anticipated at the time of the capital calculation, unless the Bank has previously corrected the amount of these elements - in the amount in which these taxes reduce the amount to which the elements of the additional core capital of the Bank may be used to cover the risk or losses.

The additional capital of the Bank makes up the following elements deducted for deductable items:

- shares and other instruments of supplementary capital and liabilities for subordinated loans and loans;
- the related emission premiums with the instruments from the previous item, i.e. the amount paid above the nominal value of these instruments;
- general credit risk adjustments not reduced for tax effects, in the amount of at most 1,25% of the amount of the risk weighted exposure to credit risk - for banks that calculate this amount using a standardized approach;
- a positive amount not reduced for tax effects, in the amount of at most 0,6% of the amount of risk weighted exposure to credit risk - for banks that calculate this amount using an IRB approach with the prior approval of the National Bank of Serbia.

The amount for which the supplementary capital or subordinated liabilities are included in the calculation of the Bank's supplementary capital over the past five years prior to the maturity date is obtained by determining the ratio of their nominal value, i.e. the principal, on the first day of the last five-year period prior to maturity and the number of calendar days in that period shall be multiplied by the number of the remaining calendar days to the maturity of the instruments or subordinated liabilities, on the day of accounting.

Deductible items from supplementary capital are:

- direct, indirect and synthetic investments of the Bank in its own instruments of supplementary capital and subordinated liabilities, including instruments that the Bank is obliged to repurchase on the basis of the existing contractual obligation;
- direct, indirect and synthetic investments of the Bank in the instruments of supplementary capital and subordinated liabilities of the persons in the financial sector with mutual investments in a bank that were executed in order to present a higher amount of the Bank's capital;
- the applicable amount of direct, indirect and synthetic investments in the instruments of supplementary capital and subordinated liabilities of the persons in the financial sector in which the Bank does not have significant investments;
- direct, indirect and synthetic investments of the Bank in the instruments of additional basic capital and subordinated liabilities of the persons in the financial sector in which the Bank has a significant investment, excluding positions on the basis of holding a sponsorship of the issue of securities held for five working days or shorter

In the course of its operations, the Bank shall ensure that its regulatory capital never declines below the Dinar equivalent value of 10,000,000 EUR at the official average exchange rate.

The following table shows the Bank`s capital position as at 31st of December:

In thousands of RSD	Note	2017	2016
TIER 1 CAPITAL			
BASIC SHARE CAPITAL		1,771,75	1,534,636
Equity instruments and associated premium		1,857,798	1,857,798
Share capital	29	1,775,940	1,775,940
Share premium	29	81,858	81,858
(-) Accumulated losses from the previous period			
Revaluation reserves and other unrealized gains	29	88,15	-
Profit reserves	29	266,48	98,785
(-) Other intangible assets minus related deferred tax liabilities		(105,711)	-
(-)Other intangible assets before impairment for related deferred tax liabilities		(115,422)	(103,556)
Deferred tax liabilities on the basis of others intangible investments that would cease to exist in case of impairment or cessation of recognition intangible assets in accordance with IFRS / IAS		9,71	-
(-) Required reserve for estimated losses on balance sheet assets and off-balance sheet items		(334,964)	(318,391)
Additional share capital		-	
CET 1		**1,771,756**	**1,534,636**
ADDITIONAL CAPITAL			
Revaluation reserves		-	77,173
Subordinated liabilities	26	790,899	592,667
Out of which: the amount of subordinated liabilities that were eligible for inclusion in the additional capital of the bank was paid up to 30/06/2017, which the bank includes in the supplementary capital 31/12/2022.	26	553,954	592,667
Note: Subordinated liabilities that have ceased to qualify for inclusion in additional capital	26	393,828	395,111
TIER 2 CAPITAL		**790,899**	**669,840**
TOTAL CAPITAL		**2,562,655**	**2,204,476**
The risk weighted exposure to credit risk, the counterparty risk, the risk of a decrease in the value of the purchased receivables and the risk of settlement / delivery		**8,504,352**	**7,726,865**
Risk-based assets based on operational risk exposure		**2,538,003**	**2,064,350**
Basic share capital adequacy ratio		**16.05%**	**-**
Basic capital adequacy ratio		**16.05%**	**-**
Capital adequacy ratio		**23.21%**	**24.13%**

Protective layers of capital		2017	2016
Request for a combined protection layer of capital		458,238	NP
A protective layer for the preservation of capital		276,058	NP
A protective layer of capital for structural systemic risk		182,179	NP

On 31st of December 2017, the regulatory capital of the Bank amounted to EUR 21,631 thousand (31st of December 2016, EUR 17,854 thousand), thus fulfilling the requirement that the minimum amount would be EUR 10 million. In accordance with the rules established by Basel III, which the Bank implemented in 2017, the core capital was increased by RSD 88,150 thousand as the revaluation reserves were shown as part of the share capital, while in 2016, they were in the supplementary capital. Also, the inclusion of deferred tax liabilities reduced the amount of intangible assets by RSD 9,711 thousand representing a deductible item of equity. The application of new rules for the calculation of the work of subordinated liabilities led to the fact that part of the subordinated loans maturing in 2018, and still a small part in the regulatory capital (RSD 80,063 thousand). These three effects together led to an increase in regulatory capital relative to the methodology prior to the application of Basel III rules for RSD 177,924 thousand.

Management believes that the Bank will be able to continue its business on a going concern basis and to meet regulatory requirements in 2018.

All prescribed statutory requirements as at 31st of December 2017 are fulfilled, as presented in the table below:

	Regulatory requirements	**The realisation by the bank**	
		2017	**2016**
Regulatory capital (in milion of EUR)	min EUR 10 milion	21.6	17.9
Basic share capital adequacy ratio	min 4,50%	16.05%	NP
Share capital adequacy ratio	min 6,00%	16.05%	NP
Capital adequacy ratio	min 8,00%	23.21%	24.13%
Ratio of permanent investments	max 60%	12.15%	14.75%
Exposure to a single party or group of related parties	max 25%	0.00%	15.89%
Summation of large exposures of Bank	max 400%	0.00%	15.89%
Liquidity ratio			
In first months of reporting period	min 1,00	3.93	3.44
In second month of reporting period	min 1,00	3.15	2.86
Of third month of reporting period	min 1,00	3.35	2.91
Narrow liquidity ratio	min 0,70	2.55	2.15
LCR	min 100%	125%	NP
Foreign currency risk ratio	max 20%	1.61%	1.01%

5, ESTIMATES

The preparation and presentation of financial statements requires the Bank to use the best possible estimates and reasonable assumptions that have an effect on the disclosed values of assets and liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on information available on the date of compilation of the financial statements, historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Since the actual results may differ from those indicated estimates, they are constantly being considered, and when corrections become necessary, they will be done in the period in which the estimates are revised and in any future periods affected.

Impairment allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 3(i) */vii/*.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Department.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and receivables with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items that cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Fair value of financial assets and liabilities

The fair value of financial instruments, traded in the active market on the balance sheet date, is based on quoted market prices of the offer and the demand without impairment on the basis of transaction costs. The fair value of non-listed instruments is determined by the net present value technique that use a market discount rate, which reflects a similar market risk by maturity criteria, equal currencies and a similar residual maturity as explained in Note 3 (i) vi.

Provision for employee benefits

Assumptions used for provisioning by IAS 19 are estimates of future salary increases, seniority, promotion and other relevant factors, such as supply and demand in the employment market. The rate used to discount benefit obligations shall be determined by reference to market yields at the end of the reporting period on high quality state bonds.

Assumptions used for the payment of the bonus plan to retain and incentives of members of the Executive Committee are: retention time of 5 years and the conditions defined in this plan. The rate used to discount cash flows and determining the current value of the rate of return on long-term securities of the Republic of Serbia in euros. (Note 27)

Contingencies and commitments

Provision for potential loss from court and administrative processes against the Bank (litigations and penalties against the Bank), are made on the base of expert's (legal department) estimate on the process outcome. If the estimate is that the probability of loss is higher than 50%, provision is made in the amount of the expected loss (including court expenses and penalty interests), and if the probability of loss is equal to or lower than 50%, no provision is made.

Deferred tax assets

Accordance with the accounting policy (Note 3(h)(ii)) deferred tax assets are recognized for all deductible temporary differences and unused amounts of transferable tax credits and tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. For the calculation of deferred taxes is applied tax rate 15%.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3(i)*/vi/*. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted market price (unadjusted) in an active market for identical instruments.
- Level 2: Valuation inputs which are not quoted market price for identical instruments in market, instead are based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets from similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable and available data and as such have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include prescribed by the Ministry of Finance of the Republic of Serbia, credit spreads and other premium used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Financial assets and liabilities - Accounting classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

In thousands of RSD	Note	Loans and receivables (at amortized cost)	Available for sale (fair value)	Other items at amortized costs	Total Book Value	Fair Value
As at 31st of December 2017						
Cash and balances with Central Bank	16	2,051,645	-	-	2,051,645	2,051,645
Financial assets available for sale	17	-	300,615	-	300,615	300,615
Loans and receivables to banks and other financial institutions	18	61,540	-	-	61,540	61,540
Loans and receivables to customers	19	11,153,736	-	-	11,153,736	13,812,189
Total		**13,266,921**	300,615	-	**13,567,536**	**16,225,989**
Deposits and other liabilities to banks, financial institutions and Central Bank	24	-	-	3,512,344	3,512,344	3,512,344
Deposits and other liabilities to other customers	25	-	-	6,452,373	6,452,373	6,183,981
Subordinated liabilities	26	-	-	1,203,198	1,203,198	901,208
Total		-	-	**11,167,915**	**11,167,915**	**10,597,533**
As at 31st of December 2017						
Cash and balances with Central Bank	16	1,541,745	-	-	1,541,745	1,541,745
Financial assets available for sale	17	-	164,534	-	164,534	164,534
Loans and receivables to banks and other financial institutions	18	731,964	-	-	731,964	731,964
Loans and receivables to customers	19	10,051,867	-	-	10,051,867	11,588,639
Total		**12,325,576**	**164,534**	-	**12,490,110**	**14,026,882**
Deposits and other liabilities to banks, financial institutions and Central Bank	24	-	-	2,516,187	2,516,187	2,516,187
Deposits and other liabilities to other customers	25	-	-	6,886,509	6,886,509	6,058,796
Subordinated liabilities	26	-	-	1,002,293	1,002,293	835,670
Total		-	-	**10,404,989**	**10,404,989**	**9,410,653**

The main methods and assumptions used when determining fair value of the financial instruments showcased in the table are as follows.

Fair value of financial assets nor measured at fair value

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

2017	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Book Value**
Cash and balances with Central Bank	16	-	2,051,645	-	2,051,645	2,051,645
Loans and receivables to banks, other financial organisations and Central Bank	18	-	-	61,540	61,540	61,540
Loans and receivables to customers	19	-	-	13,812,189	13,812,189	11,153,736
		-	**2,051,645**	**13,873,729**	**15,925,374**	**13,266,921**
Deposits and other liabilities to banks, other financial organisations and Central Bank	22	-	3,512,344	-	3,512,344	3,512,344
Deposits and liabilities to customers	23	-	-	6,183,981	6,183,981	6,452,373
Subordinated liabilities	24	-	-	901,208	901,208	1,203,198
		-	**3,512,344**	**7,085,189**	**10,597,533**	**11,167,915**
2016						
Cash and balances with Central Bank	16	-	1,541,745	-	1,541,745	1,541,745
Loans and receivables to banks, other financial organisations and Central Bank	18	-	731,964	-	731,964	731,964
Loans and receivables to customers	19	-	-	11,588,639	11,588,639	10,051,867
		-	**2,273,709**	**11,588,639**	**13,862,348**	**12,325,576**
Deposits and other liabilities to banks, other financial organisations and Central Bank	22	-	2,516,187	-	2,516,187	2,516,187
Deposits and liabilities to customers	23	-	-	6,605,808	6,605,808	6,886,509
Subordinated liabilities	24	-	-	778,728	778,728	1,002,293
		-	**2,516,187**	**7,384,536**	**9,900,723**	**10,404,989**

(a) Cash and balances with Central Bank, loans and receivables to banks, other financial organisations and Central Bank, deposits and other liabilities to banks, other financial organisations and Central Bank

The fair value of cash and assets in Central Bank, loans and receivables from banks and other financial institutions, deposits and other liabilities to banks, other financial institutions and the Central Bank are shown at carrying value because these are short-term deposits with financial institutions that have a high credit rating.

(b) Loans and receivables to customers

Loans and receivables to customers are measured at amortized cost using effective interest rate method minus any reduction for impairment or uncollectibility. Fair value for loans and receivables to customers is based on estimated average market interest rate published by the Ministry of Finance of Republic of Serbia (3.17% for short-term loans in RSD; (2016: 6,29%); 4,38% for long-term loans in RSD; (2016: 13,46%); 3,13% for loans in EUR and for loans in domestic currency indexed in EUR (2016: 3,90%), which is different than original effective interest rates.

(c) Deposits and other liabilities to customers

Deposits and other liabilities to other customers are measured at amortized cost. Fair value for deposits and other liabilities is based on estimated average market interest rate on newly-approved deposit operations of the population and non-financial institutions publish by the National Bank of Serbia in the Statistical Bulletin for December 2017. The rates were applied by maturity and currencies, while for transaction and sight deposits is considered that their fair value equals their book value. Applied rates for deposits in RSD are 2.51% for the first year (in 2016: 2.93%), 3.82% for the second year (in 2016: 3.46%) and 3.83% for other years (in 2016: 4.99%). Applied rates for deposits in EUR are 0.53% for the first year (in 2016: 0.49%), 1.20% for the second year (in 2016: 0.86%) and 0.82% for other years (in 2016: 1.02%).

(d) Subordinated liabilities

Subordinated liabilities are measured at amortized cost. Fair value for subordinated liabilities is estimated by using interest rate according to which securities were traded in euro with maturity for 7 years on the local secondary market on 31st of December 2017, with the application of the risk premium calculated as the difference between the rate at which the last subordinated loan was withdrawn on 28th of August 2017, and the rate which was traded with securities in euro with 7 years maturity on the local secondary market on that day (2.50%). For 2017, the applied trading rates on the local secondary market of securities in EUR are 2.5% for the first year and 5.00% for the sixth and seventh year. Applied rates for 2016 are 1.50% for the second year and 4.50% for the seventh year.

Fair values of assets measured at fair value

(a) Financial assets

Financial assets available-for-sale are measured at fair value.

Financial instruments measured at fair value – Fair value hierarchy:

In thousands of RSD	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale	-	300,615	-	300,615
31 December 2017 year	**-**	**300,615**	**-**	**300,615**
Financial assets available for sale	-	164,534	-	164,534
31 December 2016 year	**-**	**164,534**	**-**	**164,534**

There weren`t any transfers made between Level 1 and Level 2 during 2017 and 2016.

Financial assets available for sale consist of treasury bills of Republic of Serbia. Bearing in mind the weak level of development of the secondary market in the Republic of Serbia and the fact that the portfolio of securities available for sale includes government debt securities of the Republic of Serbia, the Bank estimates the fair value of these instruments using the comparative market approach. The bank implements subsequent measurement using a market discount rate, which reflects a similar market risk to the primary market, according to the criterion of equal currency and similar maturity dates.

NOTES WITH THE STATEMENT OF PROFIT AND LOSS

7. NET INTEREST INCOME

Net interest income includes:

In thousands of RSD	**2017**	**2016**
Interest income		
Cash and balances with Central Bank	26,634	21,633
Loans and receivables to banks and other financial institutions	1,710	2,007
Financial assets available for sale	2,542	11,792
Loans and receivables to customers	2,246,628	2,005,483
Total interest income	**2,277,514**	**2,040,915**
Interest expense		
Deposits from banks	(223,623)	(129,411)
Deposits to customers	(274,880)	(357,700)
Total interest expense	**(498,503)**	**(487,111)**
Net interest income	**1,779,011**	**1,553,804**

Interest income in the amount of 4,726 thousand RSD (2016: 4,666 thousand RSD) refers to interest income calculated on impaired loans. The amount referring to 2017 is recognized in the income statement for 2017.

8. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

In thousand RSD	**2017**	**2016**
Fee and commission income		
Payment transfer business	20,517	29,842
Loan administration	25,272	28,391
Deposits administration	1,127	801
Foreign currency business	1,137	1,379
Other banking services	691	972
Total fee and commission income	**48,744**	**61,385**
Fee and commission expense		
Payment transfer business	(2,840)	(2,721)
Loan administration	(8,606)	(9,475)
Other banking services	(11,661)	(9,982)
Total fee and commission expense	**(23,107)**	**(22,177)**
Net fee and commission income	**25,637**	**39,208**

9. NET INCOME/(EXPENSES) FROM FOREIGN EXCHANGE DIFFERENCES AND FOREIGN CURRENCY CONTRACT CLAUSE

Net income/expenses from foreign exchange differences and foreign currency contract clause includes:

In thousands of RSD	2017	2016
Foreign exchange gains	406,245	248,917
Foreign exchange losses	(405,828)	(248,885)
Total	**417**	**32**

10. OTHER OPERATING INCOME

Other operating income includes:

In thousands of RSD	2017	2016
Donations	-	562
Income from leasing of immovable property	218	222
Gains from the sale of assets acquired through collecting receivables	253	-
Other income	8,884	8,074
Total	**9,354**	**8,857**

11. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS AND OFF-BALANCE SHEET CREDIT RISK ITEMS

Net impairment loss on financial assets and off-balance sheet credit risk items includes:

In thousands of RSD	2017	2016
Provision for loan impairment - loans and receivables to customers	(400,629)	(333,002)
Provision for loan impairment - other assets	(8,710)	(4,739)
Provision for loan impairment - off balance sheet	(19,668)	(12,278)
Release of loan impairment and receivables from customers	397,989	328,915
Release of other assets impairment	5,254	3,896
Release of off-balance impairment	20,805	11,979
Direct write-off	(123,880)	(119,118)
Income from collection of written-off receivables	27,114	9,818
Total	**(101,725)**	**(114,529)**

12. EXPENSES OF WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

Expenses of wages, salaries and other personnel expenses include:

In thousands of RSD	2017	2016
Wages and salaries	336,556	316,621
Social security costs and staff related taxes	124,997	115,372
Other personal expenses	62,898	32,506
Total	**524,451**	**464,499**

13. OTHER EXPENSES

Other expenses include:

In thousands of RSD	2017	2016
Operating lease expenses	39,713	40,519
Office space expenses	30,806	31,074
Vehicle expenses	2,213	2,283
Other operating lease expenses	6,694	7,162
Premises maintenance and security	27,870	27,012
Advertising, public relation and representation expenses	11,471	15,511
Professional services expenses	83,436	71,252
Management fees	111,331	94,553
Office supplies	7,967	8,532
Communication expenses	17,090	14,961
Other taxes and contributions	125,543	78,430
Insurance fees	102,066	78,782
Fuel and other transport expenses	49,520	38,682
Staff training expenses	16,412	12,340
Board expenses	7,970	9,049
Penalties	4	31
Expenses for provisions for liabilities	2,820	-
Court taxes	4,899	5,410
Wages contribution on behalf of employer	74,621	68,360
Other	24,530	28,085
Total	**707,263**	**591,508**

14. INCOME TAX

14.1 Main components of income tax include:

In thousands of RSD	2017	2016
Current tax expense	(74,491)	(53,479)
Profit from deferred tax assets and liabilities	(3,294)	3,742
Total	**(77,785)**	**(49,737)**

14.2 Current income tax presented in accordance with the Bank's Tax balance:

In thousands of RSD	2017	2016
Profit before tax	**430,871**	**385,136**
Income tax at the rate of 15%	**64,631**	**57,770**
Tax effect of harmonizing expenses - permanent differences	7,076	7,233
Harmonization of income tax effects - permanent differences	(810)	(2,820)
Tax effects of depreciation calculated for tax and accounting purposes - temporary differences	630	182
Tax effect of expenses that are recognized in the future period - temporary differences	2,964	5,810
Tax credits for investments in property, plant and equipment	-	(14,696)
Current tax expense reported in the statement of profit and loss	**74,491**	**53,479**

The Bank, in order to determine the legal obligations arising from taxes income for the period of 1 January to 31st December 2017, carried out the adjustment of expenses and income reported in the statement of profit and loss in accordance with statutory provisions. Consequently, the tax base is increased by the amount of non-deductible expenses in the amount of 65,773 thousand RSD (2016: 69,364 thousand RSD).

14.3 Effective tax rate presented in accordance with the Bank's tax balance:

In thousands of RSD		**2017**		**2016**
Profit before tax		**430,871**		**385,136**
Income tax using the local tax rate on corporate income	**-15.00%**	**(64,631)**	**-15.00%**	**(57,770)**
Non-recognized expenses in tax balance	-2.48%	(10,670)	-3.43%	(13,225)
Tax effect of recognized income	0.19%	810	0.73%	2,820
The effect of the tax credit used in the current year	-	-	3.82%	14,696
Income tax	**-17.29%**	**(74,491)**	**-13.89%**	**(53,479)**

14.3 Changes in deferred tax assets and liabilities:

In thousands of RSD	**2017**	**2016**
Balance as at 1st of January	999	(2,743)
Temporary differences effects during the year	(3,294)	3,742
Balance as at 31st of December	**(2,295)**	**999**

On the revenue side, the Bank made adjustments to its income arising from interest income earned from debt securities issued by the Republic of Serbia by the same excluded from the tax base, in the amount of 2,542 thousand RSD (2016: RSD 11,792 thousand).
More details on deferred assets are presented within Note 22.

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of shares during the year. As at 31 December 2017 instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented.

In thousands of RSD	**2017**	**2016**
Profit in RSD	353,086,704	335,398,814
Weighted average number of ordinary shares	29,718	29,718
Basic earnings per share in RSD	**11,881**	**11,286**

NOTES WITH THE STATEMENT OF FINANCIAL POSITION

16. CASH AND BALANCES WITH CENTRAL BANK

Cash and balances with central bank:

In thousands of RSD	2017	2016
Cash in hands	105,436	131,055
Current account	374,676	347,281
The deposits of surplus liquidity	1,100,000	550,000
Obligatory reserve in foreign currency held with Central Bank	471,533	513,409
Balance as at 31st of December	**2,051,645**	**1,541,745**

The gyro account includes obligatory reserves in dinars, which represent the minimum deposits set aside in accordance with the NBS Regulation on the "Obligatory Reserves of Banks to be Held with the NBS".

The Bank calculates and allocates domestic and foreign mandatory reserve in the amount, in the manner and within the time limits laid down by the Decision on Banks' Required Reserves by the National Bank („Official Gazette of RS" No. 3/2011, 31/12, 57/12, 78/12, 107/12, 62/13, 125/14, 4/15, 78/15, 102/15), which among other things defines the manner of determining the basis for calculation of domestic and foreign currency reserve requirements and the rate of reserve requirement. The Bank maintains an average daily balance of allocated domestic required reserves in their account, and the average daily balance of foreign currency required reserves on foreign currency accounts with NBS in the accounting period in an amount calculated in the manner defined by NBS regulations governing the reserve requirement of banks.

In accordance with the Decision of the National Bank of Serbia on the obligatory reserve, the obligatory reserve in dinars is calculated on basis of the average state of dinar deposits, received loans and other related liabilities that exist during one month period and on rates of:

- 5% on the basis in dinars, which consists of obligations with contractual maturity of up to two years, that is, up to 730 days
- 0% on the basis in dinars, which consists of liabilities with contractual maturity over two years, or more than 730 days

The calculated obligatory reserve in dinars for the accounting period from 18th of December 2017 to 17 of January 2018 was RSD 327,810 thousand. On the average amount of the allocated reserve in dinars, the National Bank of Serbia pays interest of 1.75% per year.

In accordance with the Decision Of the National Bank of Serbia on the obligatory reserve, the obligatory reserve in foreign currency is calculated on basis of the average state of foreign deposits, received loans and other related liabilities that exist during one month period and on rates of:

- 20% on the basis in foreign currency, which consists of obligations with contractual maturity of up to two years, that is, up to 730 days
- 13% on the basis in foreign currency, which consists of obligations with contractual maturity over two years, that is, more than 730 days
- 100% on dinar liabilities indexed by foreign currency clause for all maturities

The calculated obligatory reserve in foreign currency for the accounting period from 18th of December 2017 to 17 of January 2018 (including the part in dinars) was EUR 3,976 thousand, or RSD 471,008 thousand. On the average amount of the allocated reserve in foreign currency, the National Bank of Serbia does not pay interest.

Overview of cash and cash equivalents in domestic and foreign currency shown in the Cash Flow Statement:

In thousands of RSD	2017	2016
Cash in hand	105,436	131,055
Gyro account	374,676	347,281
Other available deposit in Central bank	26	259,052
Foreign account in other banks	54,720	407,997
Balance as at 31st of December	**534,859**	**1,145,385**

17. FINANCIAL ASSETS AVAILABLE FOR SALE

In thousands of RSD	2017	2016
Treasury bills of RS	300,615	164,534
Balance as at 31st of December	**300,615**	**164,534**

Financial assets available for sale in the amount of RSD 300,615 thousand (2016: RSD 164,534 thousand) refer to treasury bills of the Republic of Serbia with maturities of 3 months obtained in the secondary market in 2018.

18. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL ORGANISATIONS

Loans and receivables to banks and other financial institution include:

In thousands of RSD	2017	2016
Foreign current account		
Domestic banks	15,745	348,880
Foreign banks	38,919	58,646
Guarantee deposits in domestic banks	1,659	1,729
Other deposits to banks	27	320,788
Loans given to financial sector	5,189	1,921
Balance as at 31st of December	**61,540**	**731,964**

19. LOANS AND RECEIVABLES TO CUSTOMERS

19.1 Loans and receivables to customers

	2017			2016		
In thousands of RSD	Gross amount	Impairment allowance	Book Value	Gross amount	Impairment allowance	Book Value
Micro, small and medium enterprises	667,369	(33,703)	633,666	806,272	(69,509)	736,763
Entrepreneurs	2,217,016	(60,341)	2,156,675	1,948,891	(68,362)	1,880,529
Retail	8,502,739	(139,344)	8,363,395	7,531,781	(97,206)	7,434,575
Balance as at 31st of December	**11,387,124**	**(233,388)**	**11,153,736**	**10,286,944**	**(235,077)**	**10,051,867**

19.2 Allowances for impairment consist of:

In thousands of RSD	2017	2016
Allowances for impairment		
Balance as at 1 January	235,077	232,860
Impairment loss for the year		
Charge for the year	398,763	327,963
Effect of foreign currency movements	(6,999)	3,018
Releases	(393,453)	(328,764)
Balance as at 31st of December	**233,388**	**235,077**

19.3 Loans to customers represent loans granted to individuals, small and medium size enterprises and agricultural customers.

Loans to individuals are granted in domestic currency with the maturity from 6 months up to 96 months and an annual interest rate in the range from 14.95% to 30% and with maturity from 6 months up to 120 months at an annual interest rates in range from 3% to 20%.

Loans to entrepreneurs, micro, small and medium size enterprises granted up to EUR 10,000 have the maturity from 3 months up to 84 months and annual interest rate in the range from 15% to 26% (from EUR 10,000 to EUR 25,000 up to 24 months maturity annual interest rate can be in the range from 12% to 20%, i.e. maturity from 25 to 60 months with annual interest rate from 14% to 20%). Loans granted over EUR 25,000 have a maturity from 3 months up to 96 months and annual interest rate in the range from 12% to 20%. Loans granted in dinars up to 2 million RSD have a maturity from 6 to 24 months and an annual interest rate from 18.95% to 24%.

Agricultural loans granted in domestic currency with foreign exchange clause up to EUR 10,000 have the maturity from 3 months up to 60 months and annual interest rate in the range from 14.95% to 26%. Agricultural loans granted over EUR 10,000 have the maturity from 6 months up to 60 months (up to 96 months for buying land) and annual interest rate in the range from 12% to 20%. Agricultural loans granted up to RSD 1 million have maturity from 3 to 60 months and annual interest rate from 19.95% to 28%.

19.4 Industry concentration of loans as follows:

In thousands of RSD	2017	2016
Corporate clients		
Trade	198,639	245,768
Manufacturing	126,689	153,602
Agriculture	16,752	15,911
Construction	28,670	45,398
Transport and services	198,582	248,541
Other	98,037	97,052
Total corporate clients	**667,369**	**806,272**
Retail	8,502,739	7,531,781
Entrepreneurs	2,217,016	1,948,891
Total retail	**10,719,755**	**9,480,672**
Allowance for impairment	**(233,388)**	**(235,077)**
Balance as at 31st of December	**11,153,736**	**10,051,867**

The Bank manages its exposure to credit risk by applying a range of control measures including: regular assessments using defined internal credit criteria and diversification of sector risk to avoid undue concentration in any particular type of business or geographic location. The Bank obtains collateral in the form of mortgages, guarantees and pledges in order to reduce the level of credit risk.

As at 31 December 2017, there were no loans secured by guarantees issued by other banks.

20. INTANGIBLE ASSETS

20.1 Intangible assets include:

In thousands of RSD	**2017**	**2016**
Licences	26,266	30,047
Software	81,478	72,403
Intangible assets in preparation	7,678	1,106
Balance as at 31st of December	**115,422**	**103,556**

20.2 Changes in intangible assets for the years 2017 and 2016 were as follows:

In thousands of RSD	**Licences**	**Software**	**Intangible assets in preparation**	**Total**
Cost				
Balance as at 1st of January 2017	54,729	137,480	1,106	193,315
Acquisitions	1,521	23,012	6,572	31,105
Balance as at 31st of December 2017	56,250	160,492	7,678	224,420
Allowance for impairment				
Balance as at 1st of January 2017	24,682	65,077	-	89,759
Amortisation for the period	5,302	13,937	-	19,239
Balance as at 31st of December 2017	29,984	79,014	-	108,998
Present value as at 31st of December 2016	**26,266**	**81,478**	**7,678**	**115,422**

In thousands of RSD	**Licences**	**Software**	**Intangible assets in preparation**	**Total**
Cost				
Balance as at 1st of January 2016	49,395	108,664	10,171	168,230
Acquisitions	5,334	28,816	(9,065)	25,085
Balance as at 31st of December 2016	54,729	137,480	1,106	193,315
Allowance for impairment				
Balance as at 1st of January 2016	19,770	52,834	-	72,604
Amortisation for the period	4,912	12,243	-	17,155
Balance as at 31st of December 2016	24,682	65,077	-	89,759
Present value as at 31st of December 2016	**30,047**	**72,403**	**1,106**	**103,556**

There was no indication of impairment of intangible assets with definite life as at 31st of December 2016 in accordance with the IAS 36 *Impairment of Assets.*

21. PROPERTY, PLANT AND EQUIPMENT

21.1 Property, plant and equipment include:

In thousands of RSD	**2017**	**2016**
Lands and buildings	235,642	244,280
Equipment	31,044	32,831
Leasehold improvements	40,047	45,531
Equipment in preparation	4,599	2,591
Balance as at 31st of December	**311,332**	**325,233**

21.2 Changes in property and equipment for the years 2017 and 2016 were as follows:

In thousands of RSD	**Land and buildings**	**IT Equipment**	**Other Equipment**	**Equipment in preparation**	**Total**
Cost					
Balance as at 1st of January 2017	257,136	94,153	111,553	2,591	465,433
Acquisition	-	9,784	8,447	2,008	20,239
Revalorization	(21,494)	-	-	-	(21,494)
Disposal	-	(2,669)	(3,255)	-	(5,924)
Balance as at 31st of December 2017	235,642	101,268	116,745	4,599	458,254
Allowance for impairment					
Balance as at 1st of January 2017	12,856	61,322	66,022	-	140,200
Revalorization	(19,284)	-	-	-	(19,284)
Deprecation for the period	6,428	11,567	12,875	-	30,870
Disposal	-	(2,665)	(2,199)	-	(4,864)
Balance as at 31st of December 2017	-	70,224	76,698	-	146,922
Present value as at 31st of December 2017	**235,642**	**31,044**	**40,047**	**4,599**	**311,332**

In thousands of RSD	**Land and buildings**	**IT Equipment**	**Other Equipment**	**Equipment in preparation**	**Total**
Cost					
Balance as at 1st of January 2016	257,136	80,226	105,734	2,518	445,614
Acquisition	-	15,850	8,420	73	24,343
Disposal	-	(1,923)	(2,601)	-	(4,524)
Balance as at 31st of December 2016	257,136	94,153	111,553	2,591	465,433
Allowance for impairment					
Balance as at 1st of January 2016	6,428	53,907	55,055	-	115,390
Revalorization	-	-	-	-	-
Deprecation for the period	6,428	9,299	13,347	-	29,074
Disposal	-	(1,884)	(2,380)	-	(4,264)
Balance as at 31st of December 2016	12,856	61,322	66,022	-	140,200
Present value as at 31st of December 2016	**244,280**	**32,831**	**45,531**	**2,591**	**325,233**

In case the Bank does not apply revaluation method of property, their net present value, as at December 31, 2017 would amount to RSD 141,854 thousand (2016: RSD 146,694 thousand).
There are no restrictions over the property or any part of the property and equipment pledged as collateral.

The valuation of real estates was done by an authorized valuator on 31st of December 2017. The market value of the real estate was determined by combining the comparative and yield approaches. Furthermore, in the estimation also figuring the value of the construction land that is expressed in the cost method.

22. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities, in accordance with IAS 12, are calculated on the temporary differences identified between the book value of fixed assets and intangible assets and their tax base, allowances that are not recognized in the accounting period, temporary differences arising from unpaid taxes and on the basis of employees` earnings, article 9 paragraph 2 of Corporate Income Tax Law, that are going to be recognised in the following tax period.

The Bank does not have a tax credit for investment in property, plant and equipment in 2017, because all of it was used in 2016 in amount RSD 14,696 thousand (tax credit from the previous period RSD 15,158 thousand, corrected on disposal of fixed assets RSD 462 thousand) .

Table preview of changes in deferred tax assets and liabilities and the result of their beatings:

	2017			**2016**		
In thousands of RSD	Liabilities	Assets	Net	Liabilities	Assets	Net
Temporary differences	(5,259)	2,964	(2,295)	(5,643)	6,642	999
Net deferred tax liabilities	(5,259)	2,964	(2,295)	**(5,643)**	**6,642**	**999**

Temporary differences on which the tax assets are recognized arising from the provisions based on IAS 19 in the amount of RSD 557 thousand (2016: RSD 3,664 thousand), expenses from property impairment that will be recognised in the tax period when the property is alienated in the amount of RSD 930 thousand (2016: RSD 2,053 thousand), expenses for public income and employees` earnings, article 9 paragraph 2 of Corporate Income Tax Law, that had not been paid during the tax period in the amount of RSD 1,088 (2015: RSD 925 thousand), and for provisions for legal disputes RSD 389 thousand.

Deferred tax liability is recognized on the basis of higher book value of fixed assets from their tax base in the amount of RSD 259 thousand (2015: RSD 5,643 thousand).

23. OTHER ASSETS

Other assets refer to:

In thousands of RSD	**2017**	**2016**
Receivables from fraud	32,968	34,250
Receivables from employees	10	-
Other accruals	13,636	14,075
Assets acquired through collection of receivables (Note 4b)	25,323	31,819
Prepaid expenses	10,918	14,706
Receivables from operations	25,139	13,749
Receivables for payment transfer business	929	631
Other assets	65,362	25,861
Allowance for impairment	(45,278)	(49,898)
Balance as at 31st of December	**129,007**	**85,193**

Assets acquired through collection of receivables from loans in the amount of 25,323 thousand RSD (2016: RSD 31,819 thousand), represent property such as buildings and land.

The Bank has ownership of all real estate acquired by debt collection.

24. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL ORGANISATIONS AND CENTRAL BANK

Structure is the following:

In thousands of RSD	2017	2016
Short-term deposits	346,984	196,548
Long-term deposits	432,069	405,043
Borrowings	2,645,246	1,869,724
Other	59,236	15,360
Deferred interest payable	47,631	40,703
Accrued charges on borrowings	(18,822)	(11,191)
Balance as at 31st of December	**3,512,344**	**2,516,187**

Deposits presented in the table above are, for the most part, deposits of insurance companies.

Borrowings represent loans received from abroad by foreign financial institutions.

The structure of borrowings is the following:

In thousands of RSD	2017	2016
Instituto de Credito Oficial Spain (ICO)	355,418	493,889
RESPONSABILITY SICAV (LUX)	-	246,945
EFSE S,A,, SICAV-SIF	575,439	758,473
RESPONSABILITY SICAV (LUX)	236,945	246,945
RESPONSABILITY SICAV (LUX)	118,473	123,472
RESPONSABILITY SICAV LUX MICRO AND SME FINANCE LEADERS	130,320	-
RESPONSABILITY SICAV LUX MIKRO-UND KMU-FINANZ-FONDS	82,931	-
RESPONSABILITY SICAV LUX FINANCIAL INCLUSION FUND	23,695	-
EFSE S,A,, SICAV-SIF	615,000	-
INTERNATIONAL FINANCE CORPORATION	507,025	-
Balance as at 31st of December	**2,645,246**	**1,869,724**

Cash transactions during 2017 reflecting the change in the balance of loans received as at December 31, 2017 compared to the comparative period are reported within the items of the Cash Flow Statement, Proceeds from borrowings and Outflows from received loans.

The loan from Istituto de Credito Official Spain is contracted in 2007, and it was withdrawn in 2008 (EUR 6,000 million), with repayment in six instalments in amount of EUR 1 million, from March 2015 until March 2020 with interest rate of 5.5% annually. The third instalment of the due loan was paid on the 12th of March 2017.

A loan of Responsibility Sicav (Lux) was taken in July 2014 (EUR 2 million) with maturities on 30th of June 2017 and annual interest rate of 4.5%.

The loans from EFSE (European Fund for Southeast Europe) Sicav-SIF:

- the first one was taken in March 2015 (EUR 2 million) with maturities in 7 six-month instalments from 15th of December 2015 to 15th of December 2018 and with an annual interest rate of 6M EURIBOR plus 5.8%.
- The second was taken in December 2015 (EUR 3. million) and April 2016 (2 million) with maturities in 7 six-month instalments from 15th of December 2017 to 15th of December 2020 and with an annual interest rate of 6M EURIBOR plus 5.3%.

— The third was taken in June 2017 (RSD 615 million) with a one-time maturities on 31st of May 2020, and with the annual interest rate of 3M BELIBOR plus 5.6%

A loan of Responsibility Sicav (Lux) was taken in May 2015 (EUR 2 million) with maturities 15th of May 2018, and the annual interest rate of 4.5%.

A loan of Responsibility Sicav (Lux) was taken in May 2015 (EUR 1 million) with maturities 15th of May 2018, and the annual interest rate of 4.5%.

A loan of ResponsAbility Sicav (Lux) Micro and SME Finance Leaders was taken in October 2017 (EUR 1,1 million) with maturities 27th of October 2020, and the annual interest rate of 4.3%.

A loan of ResponsAbility Sicav (Lux) Micro and KMU-Finanz-Fonds was taken in October 2017 (EUR 700 thousand) with maturities 27th of October 2020, and the annual interest rate of 4.3%.

A loan of ResponsAbility Sicav (Lux) Financial Inclusion Fund was taken in October 2017 (EUR 200 thousand) with maturities 27th of October 2020, and the annual interest rate of 4.3%.

A loan of INTERNATIONAL FINANCE CORPORATION (IFC) was taken in December 2017 (EUR 4,25 million, in RSD 507 million) with maturities 15th of December 2020, and the annual interest rate of 8.23%.

25. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS

The structure of deposits is as follows:

In thousands of RSD	**2017**	**2016**
Transaction deposits		
Enterprises	342,471	370,397
Retail	514,680	475,946
On-demand deposits		
Enterprises	-	114,755
Retail	-	1,269,865
Short-term deposits		
Enterprises	537,074	540,360
Retail	1,601,513	321,104
Total short-term	2,995,738	3,092,426
Long-term		
Enterprises	191,902	393,520
Retail	3,097,148	3,220,011
Total long-term	3,289,050	3,613,531
Accrued non-matured interest	170,535	185,165
based on deposits - enterprises	10,816	13,044
based on deposits -retail	159,719	172,122
U Pre-paid interest on retail deposits	(2,949)	(4,615)
Balance as at 31st of December	**6,452,373**	**6,886,509**

The following is an overview of the interest rates on which the Bank collected deposits from clients in 2017:

- the current accounts of legal entities in foreign currency at the annual interest rate for EUR of 0.00%.
- the current accounts of retail in foreign currency at the annual interest rate for EUR of 0.00%.
- the on-demand savings deposits of retail in foreign currency at the annual interest rate for EUR from 0.10 to 1.00%.
- the term savings deposits of retail in foreign currency at the annual interest rate for EUR from 0.720% to 2.70%;
- the term savings deposits of legal entities in foreign currency at the annual interest rate for EUR from 0.70% to 1.50%;
- the current accounts of legal entities in domestic currency at the annual interest rate for EUR of 0.00%.
- the overnight deposits of legal entities at the annual interest rate for Repo-3.00% to Repo-2.50%;
- the term savings deposits of legal entities in domestic currency at the annual interest rate from 2.50% to 6.00%;
- The term savings deposits of retail in domestic currency at the annual interest rate from 2.00% to 6.50%.

26. SUBORDINATED LIABILITIES

The Bank provides subordinated sources of financing both from the parent company Opportunity Transformation Investments and from other European investment funds. As of December 31, the subordinated liabilities of the Bank consist of:

In thousands of RSD		2017	2016
OPPORTUNITY TRANSFORMATION INVESTMENTS B,V		490,457	510,837
Of which :	Principal	473,891	493,889
	Deferred fee	(292)	(622)
	Accrued not-matured interest	16,858	17,570
COOPEST NETHERLANDS B,V		235,194	244,855
Of which :	Principal	236,945	246,945
	Deferred fee	(1,751)	(2,090)
GLS ALTERNATIVE INV,(ARBOR FINANCIAL SYSTEMS LTD)*		236,903	246,601
Of which :	Principal	236,945	246,945
	Deferred fee	(2,053)	(2,405)
	Accrued not-matured interest	2,011	2,061
TRIODOS SICAV II		120,322	-
Of which :	Principal	118,473	-
	Deferred fee	(1,121)	-
	Accrued not-matured interest	2,970	-
TRIODOS CUSTODY B,V,		120,322	-
Of which :	Principal	118,473	-
	Deferred fee	(1,121)	-
	Accrued not-matured interest	2,970	-
Balance as at 31st of December		**1,203,198**	**1,002,293**

* GLS ALTERNATIVE INVESTMENTS has taken receivable from ARBOR FS LTD in 2017.

Cash transactions during 2017 reflecting the change in the balance of the subordinated liabilities as at December 31, 2017 compared to the comparative period are reported within the items of the Cash Flow Statement, Inflows on Subordinated Loans and Outflows on Subordinated Loans.

In December 2014, OTI Illinois, shareholder of the Bank, has taken a claim on the basis of subordinated liabilities from the European Fund for Southeast Europe and became the new creditor. The subordinated loan was withdrawn in 2008 in three instalments of EUR 2 million which will be due for payment within 10 years, at an interest rate of 8.78% until 22nd of March 2014 and 12.68% after that date. The loan is repayable in full on the maturity date of each tranche. Loan conditions remained unchanged.

The subordinated loan of Coopest is caused in part by converting a long-term loans in subordinated (EUR 1 million) in February 2015, the work of pulling a new tranche of subordinated loans (EUR 1 million in March 2015. The loan will due in full on 28th of February 2023. The interest rate is 7.5% per annum.

The subordinated loan signed in 2016 with Arbor Financial Systems LTD was withdrawn on 15th of November 2016 in the amount of EUR 2 millio, taken over by GLS Alternative Investments under equal repayment terms with the principal being due on the 15th of November 2023 and interest rate of 5.5% plus 6M EURIBOR (minimal interest rate 6.5%, maximal 8.5%) per annum.

Subordinated loan signed in 2017 with Triodos SICAV II, was withdrawn on 28 th August 2017, in the amount of EUR 1 million with maturity of principal on 28th August 2024 and fixed interest rate of 7.5% annually.

Subordinated loan signed in 2017 with Triodos CUSTODY BV, was withdrawn on 28th August 2017 in the amount of EUR 1 million with maturity of principal on 28th August 2024, and a fixed annual interest rate of 7.5%.

27. PROVISIONS

Provisions in the amount of RSD 48,391 thousand (2016: RSD 27,283 thousand) refer to provisions for employee benefits in the amount of RSD 43,753 thousand (2016: RSD 24,078 thousand), provisions for losses on guarantees in the amount of RSD 848 thousand (2016: RSD 1,985 thousand) and provisions for litigations against the Bank in the amount RSD 3,790 thousand (2016: RSD 1,220 thousand),

Provisions for employee benefits consists of long-term provisions for severance and long-term provisions in accordance with the payment plan in order to stimulate and retain employees. Provisions for severance payments are made on the legal obligation of severance payments in the amount of two average monthly gross salary in the Republic of Serbia and applied the following assumptions: discount rate - the rate of return of long-term treasury bills of the Republic of Serbia 12.99%, earnings growth at an annual rate of 7%.

Provisions for Retention and Incentive Plan (retention and incentives of members of the Executive Board) essentially provisions for bonuses, which will be paid after five years, if they fulfil the conditions defined in the plan. Provision expense recognized in the statement of profit and loss for 2017, represents the current value of future payments. Calculation of the current value, starts from the assumption that the interest rate (rate of return of long-term government bonds in EUR 1.29%), the level of employees and employment period (3 years) constants.

The changes in provisions are as follows:

In thousands of RSD	2017	2016
Balance as at 1st of January	27,283	18,847
New provisions IAS 19 – made during the year	19,675	13,974
IAS 19 – used and released	-	(2,537)
New provisions for liabilities – made during the year	2,820	-
Provisions for liabilities – used and released during the year	(250)	(3,300)
Provisions for credit risk off balance sheet items	(1,137)	299
Balance as at 31st of December	**48,391**	**27,283**

28. OTHER LIABILITIES

Other liabilities include:

In thousands of RSD	2017	2016
Liabilities for tax and contributions	7,994	11,158
Trade payables	16,701	17,171
Deferred income	3,962	12,755
Liabilities for received payments	92,391	78,624
Liabilities to employees	28,357	36,755
Other liabilities	15,570	15,892
Balance as at 31st of December	**164,975**	**172,355**

The largest part of other liabilities, in amount of RSD 92,391 thousand (2016: RSD 78,624 thousand), are payments from clients based on loan instalments due after 31st of December.

29. EQUITY

29.1 Equity Structure

The equity structure as at 31 December 2017 contains share capital, share premium, revaluation reserves, reserves from profit and profit for the year.

In thousands of RSD	2017	2016
Share capital	1,775,940	1,775,940
Share premium	81,858	81,858
Revaluation reserves	88,149	90,792
Reserves from profit	266,485	98,785
Profit for the year	353,086	335,399
Profit from previous years	167,699	-
Balance as at 31st of December	**2,733,218**	**2,382,774**

a) *Share capital*

The share capital of the Bank was established by broadcasting of ordinary shares in five episodes in the period since the establishment of the Bank in 2007 ended 31st of December 2017. During the year 2017 there were no changes in the share capital.

On 14 June 2012 the Assembly of the Bank passed the Decision on the third issue of ordinary shares. By this Decision it is issued 1,950 ordinary shares, each having the nominal value of RSD 60,000 and with total nominal value of RSD 117,000 thousand. Third ordinary share issue was fully subscribed and paid up by OTI Illinois, USA.

The first part of the value of share issue, in the amount of RSD 114,000 thousand, was paid up on 27 June 2012 while the second part of the value of share issue, in the amount of RSD 3,000 thousand, was paid up on 2 November 2012.

On 13 November 2012 the Assembly of the Bank passed the Decision on the fourth issue of ordinary shares. By this Decision it is issued 900 ordinary shares, each having the nominal value of RSD 60,000 and with total nominal value of RSD 54,000 thousand. On 7 December 2012 the fourth ordinary share issue was fully subscribed by OTI Illinois, USA. OTI Illinois, USA has not paid the full amount but the amount of RSD 24,600 thousand, which includes 440 ordinary shares, while the remainder of RSD 29,400 thousand is recorded in the Serbian Business Registers Agency as subscribed unpaid capital. Shares are paid 30 December 2014.

In February 2015, the fifth issue of the 4200 shares has been issued, which is fully enrolled and partially paid (4,081 shares) OTI Illinois USA, with conversion of subordinated loans (EUR 2,000 thousand) to the share capital in the amount of RSD 244,860 thousand, while 119 shares worth RSD 7,140 thousand unpaid subscribed on 31st of December 2017.

b) *Share premium*

Share premium is the result of the difference between the issues prices of shares in amount of 733,758 thousand RSD and the value of the shares I and II emissions in amount of 651,900 thousand RSD.

c) *Revaluation reserves*

Revaluation reserves were formed from the revaluation of property (net of losses on deferred tax liabilities) and the change in the value of financial assets available for sale, resulting in an amount of RSD 88,149 thousand.

d) Reserves from profit

At the regular meeting held on April 27th 2016, Bank Assembly it was decided that the 50% of profit realized in 2016 in the amount of RSD 167,699 thousand, schedules to reserves from profit and the rest of profit realized in 2016 is unassigned. Total reserves from profit, including amount from the previous period of RSD 98,785 thousand, is RSD 266,485 thousand.

29.2 Shareholder structure as at 31st of December 2016 and 31st of December 2015 was as follows:

	2017			2016		
In thousands of RSD	Number of shares	Share capital	%	Number of shares	Share capital	%
Shareholder OTI Illinois, USA	29,599	1,775,940	100%	29,599	1,775,940	100%
Balance as at 31st of December	**29,599**	**1,775,940**	**100%**	**29,599**	**1,775,940**	**100%**

* Number of shares presents paid shares

As at 31st of December 2017 the number of shares issued by the bank is 29,718 common shares (2016: 29,718) in the amount of RSD 1,783,080 thousand. From that number of shares issued, 119 shares in the amount of RSD 7,140 thousand represent inscribed but unpaid share capital. All shares are common, of individual face value RSD 60,000 thousand.

Holders of common shares are entitled to receive dividends as declared by the Board of the Bank and are entitled to one vote per share at Bank's Assembly. There weren`t any dividend payments in 2017 and 2016.

30. CONTINGENT LIABILITIES

30.1 Legal procedures

There are 27 litigations against the Bank in total amount RSD 31,537 thousand as at 31st of December 2017. Provision for potential loss from court and administrative processes against the Bank (litigations and penalties against the Bank), are made on the base of expert's (legal department) estimate on the process outcome. If the estimate is that the probability of loss is higher than 50%, provision is made in the amount of the expected loss (including court expenses and penalty interests), and if the probability of loss is equal to or lower than 50%, no provision is made.

Management expects outflow in 2018 on the basis of six cases, so that on 31st of December 2017 provisions for potential losses that may result from these proceedings amount to RSD 3,790 thousand (2016: RSD 1,220 thousand).

30.2 Commitments for operating leases of business premises:

In thousands of RSD	**2017**	**2016**
Commitments due within one year	27,285	26,917
Commitments due in the period from one to five years	64,785	50,103
Commitments due in the period longer than five years	19,246	10,470
Balance as at 31st of December	**111,316**	**87,490**

31. OFF- BALANCE SHEET ITEMS

In thousands of RSD	2017	2016
a) Risk weighted		
Guarantees and other sureties in dinars	15,930	41,125
Guarantees and other sureties in foreign currency	5,272	20,883
Total risk weighted, gross	21,202	62,008
Total provision for off balance sheet items	(848)	(1,985)
Total risk weighted, net	20,354	60,023
b) Non risk weighted		
Irrevocable commitments	28,164	51,522
Managed funds on behalf of third parties		
- in foreign currency	1,671	1,626
	29,835	53,148
Other off-balance items		
Received mortgage as collateral	4,435,035	8,077,816
Received pledge as collateral	1,332,835	1,938,964
Evidential interest	34,213	31,293
Other off-balance sheet items	57,284	819
	5,859,367	10,048,892
Total off-balance sheet items, gross	**5,910,404**	**10,164,048**
Total off-balance sheet items, net	5,909,556	10,162,063

a) Guarantees and other sureties in domestic currency refer to custom guarantees in the amount of RSD 13,600 thousand (2016: RSD 34,280 thousand), guarantees for orderly execution of the transaction and tender guarantees in the amount of RSD 2,330 thousand (2016: RSD 6,845 thousand).

Guarantees and other sureties in foreign currency refer to financial guarantees in the amount of RSD 5,272 thousand (2016: RSD 9,771 thousand). However, the Bank doesn’t have guarantees for orderly execution of the transaction in foreign currency at the end of 2017, but in the 2016 it was in the amount of RSD 11,113 thousand.

Irrevocable liabilities refer to unused approved overdraft limit on current accounts of legal entities in the amount of RSD 20,821 (2016: RSD 38,549 thousand) and entrepreneurs in the amount of 7,343 (2016: RSD 12,972 thousand).

b) The total amount of investments by activities and for the account of third parties, refers to long-term loans for stimulating the development of agriculture in which the bank's assets accounted for 60% and 40% of the funds received from the Ministry of Agriculture, Trade, Forestry and Water Management, and this doesn’t represent the credit risk position.

c) Other off-balance sheet items refer to: the value of credit collateral in the amount of 5,767,870 (2016: RSD 10,016,780 thousand), treasury bills in the amount of RSD 629 thousand (2016: 819 thousand) written off loan principal, regular and default interest on loans in the amount of RSD 56,655 thousand and evidentiary interest in the amount of RSD 34,213 thousand (2016: 31,293 thousand). Position Other off-balance sheet items, in the amount of RSD 57,284 thousand contain RSD 56,655 thousand of written off loans in 2017, and this doesn’t represent the credit risk position.

32. RELATED PARTY TRANSACTIONS

32.1 Outstanding balances with related parties at the year end, along with any related income and expenses for the year are as follows:

In thousands of RSD	2017	2016
STATEMENT OF FINANCIAL POSITION		
OPPORTUNITY TRANSFORMATION INVESTMENTS BV - NETHERLANDS		
Subordinated liabilities	490,457	510,837
OPPORTUNITY TRANSFORMATION INVESTMENTS -CHICAGO		
Deposits and other liabilities to other customers	-	140,622
STATEMENT OF PROFIT AND LOSS		
OPPORTUNITY TRANSFORMATION INVESTMENTS BV - NETHERLANDS		
Interest expenses	(62,321)	(63,521)
OPPORTUNITY INTERNATIONAL - OAK BROOK		
Management fees	(111,331)	(94,552)
Other expenses	(2,401)	(1,414)

32.2 In 2017 the Bank paid a gross compensation (in form of a short-term employee benefits) to the members of the Board of Directors and the Executive Board in the amount of RSD 51,476 thousand (2015: RSD 64,808 thousand).

33. SUBSEQUENT EVENTS

There were no events after the balance sheet date, which should be disclosed in the Notes to financial statements.

Novi Sad, 20th March 2018

For and behalf of the management of Opportunity Bank a.d., Novi Sad

Vladimir Vukotić
Chairman of the Executive Board

Zorica Sedlar
Member of the Executive Board