EUROBANK A.D. BEOGRAD

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Eurobank a.d. Beograd

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank a.d. Beograd as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Saša Todorović

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 19 April 2018

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EUROBANK A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Contents:

EUROBANK A.D.

Income statement and Statement of Other Comprehensive Income for the year ended 31 December 2017

All amounts are expressed in 000 RSD unless stated otherwise

Income statement	**Note**	**2017**	**2016**
Interest income	6	7,403,094	7,472,472
Interest expenses	6	(831,447)	(1,033,784)
Net interest income		**6,571,647**	**6,438,688**
Fee and commission income	7	2,698,097	2,381,548
Fee and commission expense	7	(547,833)	(397,536)
Net fee and commission income		**2,150,264**	**1,984,012**
Net gains from financial assets held for trading	8	3,155	1,636
Net loss from hedging	9	(14,798)	-
Net gains from financial assets available for sale	10	3,679	-
Net foreign exchange gains/(losses)	11	(19,383)	25,205
Other operating income	12	134,486	61,684
Net provisions and losses from impairment of financial asset and off-balance sheet credit risk items	13	(699,384)	(885,115)
Total operating income		**8,129,666**	**7,626,110**
Salaries, benefits and other personnel expenses	14	(1,908,932)	(1,818,653)
Depreciation and amortization	15	(394,372)	(416,001)
Other expenses	16	(3,308,046)	(3,244,670)
Profit before tax		**2,518,316**	**2,146,786**
Income tax	17	(135,169)	-
Deferred income tax profit / (loss)	17	(201,392)	(85,461)
Profit for the year		**2,181,755**	**2,061,325**
Earnings per share			
Basic earnings per share (in RSD, without paras)	18	8,582	8,108

Statement of Other Comprehensive Income	**2017**	**2016**
Profit for the period	**2,181,755**	**2,061,325**
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses) on defined benefit pensions plans	(3,624)	5,490
Items that may be reclassified subsequently to profit and loss		
Gains/(Losses) on fair value changes of financial assets available for sale	5,578	(64,613)
Income tax relating to items that may be reclassified	1,843	8,868
Other comprehensive income for the year, net of tax	3,797	(50,255)
Total comprehensive income for the year	**2,185,552**	**2,011,070**
Total comprehensive income attributable to:		
Owners of the parent	2,185,552	2,011,070

Belgrade, 19th April 2018

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

All amounts are expressed in 000 RSD unless stated otherwise

Balance sheet	Note	31 December 2017	31 December 2016
Assets			
Cash and balances with Central Bank	19	18,005,519	21,714,061
Pledged financial assets	20	3,110,300	692,590
Financial assets at fair value through profit and loss held for trading	21	322,759	26,712
Financial assets available for sale	22	9,938,015	14,993,529
Loans and deposits to banks and other financial institutions	23	14,303,432	12,245,083
Loans and receivables from customers	24	106,134,695	94,819,179
Investments in associates	25	43,681	20,479
Intangible assets	26	1,944,890	1,846,161
Property, plant and equipment	27	3,583,152	3,653,311
Current tax assets		-	131,796
Deferred tax assets	28	-	58,034
Other assets	29	1,026,652	431,756
Total assets		**158,413,095**	**150,632,691**
Equity and Liabilities			
Financial liabilities at fair value through profit and loss held for trading	30	13,222	31,335
Deposits and other liabilities due to banks, other financial institutions and central bank	32	9,225,583	7,033,192
Deposits and other liabilities due to customers	33	96,617,011	93,532,515
Provisions	34	411,558	446,586
Current tax payables		3,373	-
Deferred tax liabilities	28	141,516	-
Other liabilities	35	849,943	623,225
Total Liabilities		**107,262,206**	**101,666,853**
Shareholders' equity			
Share capital	36	31,481,926	31,481,926
Own shares repurchase	36	(500)	-
Retained earnings	36	10,096,705	7,914,950
Reserves	36	9,572,758	9,568,962
Total shareholders' equity		51,150,889	48,965,838
Total Equity and Liabilities		**158,413,095**	**150,632,691**

Belgrade, 19th April 2018

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

All amounts are expressed in 000 RSD unless stated otherwise

Statement of Changes in Equity	Share and other capital	Share premium	Revaluation reserves	Other reserves	Retained earnings/ Accumulated loss	Total shareholder's equity
As at 31 December 2015	**25,429,927**	**6,051,999**	**60,881**	**9,558,335**	**5,853,625**	**46,954,768**
AFS portfolio revaluation	-	-	(64,613)	-	-	(64,613)
Deferred tax on revaluation reserves	-	-	9,692	-	-	9,692
Actuarial gains	-	-	5,490	-	-	5,490
Deferred tax on actuarial gains	-	-	(824)	-	-	(824)
Current period profit	-	-	-	-	2,061,325	2,061,325
As at 31 December 2016	**25,429,927**	**6,051,999**	**10,625**	**9,558,335**	**7,914,950**	**48,965,838**
AFS portfolio revaluation	-	-	5,578	-	-	5,578
Deferred tax on revaluation reserves	-	-	1,298	-	-	1,298
Actuarial gains/(losses)	-	-	(3,624)	-	-	(3,624)
Deferred tax on actuarial gains / (losses)	-	-	544	-	-	544
Current period profit	-	-	-	-	2,181,755	2,181,755
Other - decrease	(500)	-	-	-	-	(500)
As at 31 December 2017	**25,429,427**	**6,051,999**	**14,423**	**9,558,335**	**10,096,705**	**51,150,889**

Belgrade, 19th April 2018

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

EUROBANK A.D.
Cash flow statement for the year ended 31 December 2017

All amounts are expressed in 000 RSD unless stated otherwise

Cash Flow Statement	2017	2016
Cash inflow from operating activities		
Inflow from interest	6,787,783	6,828,481
Inflow from fees and commissions	2,692,035	2,401,428
Inflow from other operating income	181,381	119,327
Inflow from dividends	743	532
	9,661,942	**9,349,768**
Cash outflow from operating activities		
Outflow from interests	(840,438)	(1,094,639)
Outflow from fees and commissions	(513,837)	(371,439)
Outflow from gross salaries, benefits and other personal expenses	(1,851,566)	(1,786,860)
Outflow from taxes, contributions and other duties charged to income	(663,444)	(691,383)
Outflow from other operating expenses	(2,757,842)	(2,740,294)
	(6,627,127)	**(6,684,615)**
Net cash inflow for operating activities before increase or decrease in loans investments and deposits	**3,034,815**	**2,665,153**
Decrease in loans and investments, and increase in deposits		
Decrease in securities	-	36
Increase in deposits and other liabilities with banks, other financial organizations and customers	6,977,920	5,145,620
	6,977,920	**5,145,656**
Increase in loans and investments, and decrease in deposits		
Increase in loans and placements with banks, other financial organizations and customers	(19,243,295)	(9,427,362)
Increase in securities	(308,270)	-
	(19,551,565)	**(9,427,362)**
Net cash inflow for operating activities before profit tax	**(9,538,830)**	**(1,607,553)**
Profit tax paid	-	-
Net cash inflow for operating activities	**(9,538,830)**	**(1,616,553)**
Cash flow from investing activities		
Inflow from selling of long term investments	16,783,256	14,127,658
Inflow from selling of intangible assets and fixed assets	135,114	3,979
	16,918,370	**14,131,637**
Cash outflow from investing activities		
Outflow for purchase of long term investments	(13,700,062)	(13,432,666)
Outflow for investments in affiliated companies	(38,000)	-
Outflow for purchase of intangible assets and fixed assets	(637,233)	(357,951)
	(14,375,295)	**(13,790,617)**
Net cash flow from investing activities	**2,543,075**	**341,020**
Cash inflow from financing activities		
Increase in borrowings	24,337,395	15,884,290
	24,337,395	**15,884,290**
Cash outflow from financing activities		
Outflows in own shares repurchase	(500)	-
Decrease in borrowings	(22,157,527)	(14,052,064)
	(22,158,027)	**(14,052,064)**
Net cash inflow from financing activities	**2,179,368**	**1,832,226**
Cash inflow	**57,895,627**	**44,520,351**
Cash outflow	**(62,712,014)**	**(43,954,658)**
Net cash inflow/(outflow)	**(4,816,387)**	**565,693**

All amounts are expressed in 000 RSD unless stated otherwise

Cash at the beginning of the year	**15,239,177**	**14,698,021**
Foreign exchange gains	13,270,161	8,318,173
Foreign exchange losses	(13,374,251)	(8,342,710)
Cash at the end of the reporting period (Note 19)	**10,318,700**	**15,239,177**

Belgrade, 19th April 2018

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

1. General information

Eurobank A.D. (hereinafter ''The Bank") has been established by the merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The Bank operates in accordance with Law on Banks based on principles of liquidity, safety and profitability.

The registered office of the Bank is Vuka Karadžića 10, Belgrade.

As at 31 December 2017 the Bank had 1,467 employees (31 December 2016: 1,450 employees). The Bank's network comprises of 80 branches and business centres (31 December 2016: 80).

The Bank's Registration number is 17171178. The Bank's Tax identification number is 100002532.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The Bank prepares its financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, and with the National Bank of Serbia Regulations. Pursuant to the Law on Accounting (Official Gazette of the Republic of Serbia no. 62/2013), banks are required to maintain their books of account and to prepare financial statements in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost convention and on ongoing concern basis, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The Bank's presentation currency is the RSD being the functional currency of the Bank.

The Bank's financial statements have been prepared on a going concern basis, which assumes that the Bank will continue in operational existence for the foreseeable future. In making this judgment management considered the Eurobank Group's financial position, current intentions, profitability of operations and access to financial resources, and analyzed the impact of the recent financial crisis on future operations of the Eurobank Group.

2. Summary of significant accounting policies (continued)

a) New and amended Standards and interpretations

The following amendments to standards, as issued by the International Accounting Standards Board (IASB) apply from 1 January 2017:

IAS 7, Amendment - Disclosure Initiative. The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities. The adoption of the amendment had no impact on the Bank's financial statements.(Note 31)

IAS 12, Amendment - Recognition of Deferred Tax Assets for Unrealized Losses. The amendment clarifies that (a) unrealized losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes may give rise to a deductible temporary difference irrespective of whether the entity expects to recover the carrying amount of the debt instrument by sale or use, (b) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, (c) the estimate of probable future taxable profits may include the recovery of an asset for more than its carrying amount, if there is sufficient evidence that it is probable that this will be realized by the entity, and (d) a deferred tax asset is assessed in combination with all of the other deferred tax assets where the tax law does not restrict the sources of taxable profits against which the entity may make deductions on the reversal of that deductible temporary difference. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type. The adoption of the amendment had no impact on the Bank's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle. IFRS 12 'Disclosure of Interests in Other Entities': It is clarified that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale except for the requirement for summarized financial information. The adoption of the amendment had no impact on the Bank's financial statements.

b) Standards that have been issued but are not yet effective

A number of new standards, amendments to existing standards and interpretations are effective after 2017, as they have not yet been endorsed by the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 19, Amendment –Plan Amendment, Curtailment or Settlement (effective 1 January 2019). The amendment clarifies that when a change to a defined benefit plan i.e. an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Additionally, the amendment includes clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The adoption of the amendment is not expected to impact the Bank's financial statements.

2. Summary of significant accounting policies (continued)

b) Standards that have been issued but are not yet effective (continued)

IAS 28, Amendment – Long Term Interests in Associates and Joint Ventures (effective 1 January 2019). The amendment clarifies that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using equity accounting. According to the amendment, any adjustments to the carrying amount of long term interests resulting from the application of IAS 28 should not be considered when applying the IFRS requirements which apply to long term interests before applying the loss allocation and impairment requirements of IAS 28. The adoption of the amendment is not expected to impact the Bank's financial statements.

IAS 40, Amendment-Transfers of Investment Property (effective 1 January 2018). The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence. The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 2, Amendment-Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018). The amendment addresses (a) the measurement of cash-settled share-based payments, (b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and c) the classification of share-based payments settled net of tax withholdings.
Specifically, the amendment clarifies that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments. It also clarifies that the liability of cash-settled share-based payment modified to equity-settled one is derecognized and the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted and any difference is recognized in profit or loss immediately. Furthermore, a share-based payment net by withholding tax on the employee's behalf (a net settlement feature) is classified as equity settled in its entirety, provided it would have been classified as equity-settled had it not included the net settlement feature. The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 4, Amendment-Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018). The amendment addresses the accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the forthcoming new insurance contracts Standard. It introduces two options for entities that issue insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance, allowing them to continue to apply IAS 39 'Financial Instruments: Recognition and Measurement' while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets, effectively resulting in IAS 39 accounting for those designated financial assets. This approach can be used provided that the entity applies IFRS 9 in conjunction with IFRS 4 and classifies financial assets as fair value through profit or loss in accordance with IFRS 9, when those assets were previously classified at amortized cost or as available-for-sale in accordance with IAS 39. The adoption of the amendment is not expected to impact the Bank's financial statements.

2. Summary of significant accounting policies (continued)

b) Standards that have been issued but are not yet effective (continued)

Transition to IFRS 9, 'Financial Instruments' and impact assessment. In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised requirements on the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement
IFRS 9 establishes a new classification and measurement approach for all types of financial assets that reflects the entity's business model for managing the assets and their contractual cash flow characteristics. IFRS 9 requires financial assets to be classified into one of the following measurement categories: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available for sale.

Financial assets will be measured at amortized cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest (SPPI). Financial assets will be measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. All other financial assets will be classified at FVTPL.

An entity may at initial recognition, designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Furthermore, on initial recognition of an equity instrument that is not held for trading, an entity may irrevocably elect to present subsequent changes in fair value through OCI. This election is made on an investment-by-investment basis.

Under IFRS 9, embedded derivatives in contracts where the host is a financial asset in the scope of the standard are no longer bifurcated. Instead, the hybrid financial instrument is assessed for classification as a whole.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk shall be presented in OCI and shall not be subsequently transferred to profit or loss, unless such a presentation would create or enlarge an accounting mismatch. Under IAS 39, all fair value changes of liabilities designated at FVTPL are recognized in profit or loss, unless this would create or enlarge an accounting mismatch.

Business model assessment
The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. Financial assets that are held for trading or managed on a fair value basis will be measured at FVTPL.

The Bank's approach is to perform the business model assessment consistently with its operating model and the information provided to key management personnel. In making the above assessment, the Bank will consider a number of factors including:

- the stated policies and objectives for each portfolio;

2. Summary of significant accounting policies (continued)

- how the performance of each portfolio is evaluated and reported;
- the risks associated with the performance of the business model and how those risks are managed;
- how managers are compensated;
- past experience on how the cash flows from those portfolios were collected and how the Bank's stated objective for managing the financial assets is achieved; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Irrespective of their frequency and value, sales due to an increase in the financial assets' credit risk and sales made due to liquidity needs in case of an unexpected stress case scenario, are consistent with a hold-to-collect business model.

SPPI assessment
In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. This will include an assessment of whether a financial asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL.

Assessment of changes to the classification and measurement on transition
For the purpose of the transition to IFRS 9, the Bank is carrying out a business model assessment across various portfolios and a detailed review of the contractual terms (SPPI review) for its debt instruments portfolios to determine any potential changes to the classification and measurement. The assessment is being performed based on the facts and circumstances that exist at the date of initial application i.e. 01/01/2018. Furthermore, it is performed on a sample basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio is being performed on an individual basis. The business model assessment and the SPPI review are not expected to result in any significant changes compared to how financial assets are measured under IAS 39, except where noted below. In particular:

- loans and advances to banks and customers that are measured at amortized cost under IAS 39, are also expected to be measured at amortized cost under IFRS 9;
- the debt securities classified as available-for-sale under IAS 39, are expected to be measured at AC;
- trading and derivative assets that are measured at FVTPL under IAS 39 are also expected to be measured at FVTPL under IFRS 9;
- equity securities classified as available-for-sale under IAS 39 are expected to be measured at FVTPL under IFRS 9.

IFRS 9 requires the business model assessment to be made based on the facts and circumstances that exist at the date of initial application, therefore, the Bank carried a roll forward assessment during 2017 to determine the actual impact taking into account the business model strategies and the composition of its portfolios as at 1 January 2018.

2. Summary of significant accounting policies (continued)

Impairment of financial assets
IFRS 9 introduces an expected credit loss (ECL) model that replaces the incurred loss model in IAS 39. The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognized and will apply to a broader population of financial instruments compared to IAS 39. The estimate of ECL will require the use of complex models and significant judgment about future economic conditions and credit behavior.

The new impairment model, which introduces a "three stage approach" that will reflect changes in credit quality since initial recognition, will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Accordingly, no impairment loss will be recognized on equity investments.

Upon initial recognition of instruments in scope of the new impairment principles, the Bank will record a loss allowance equal to 12-month ECL, being the ECL that result from default events that are expected within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL will be recognized, arising from default events that are expected over the expected remaining life of the instrument. Financial assets for which 12-month ECL are recognized will be considered to be in 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk will be allocated in 'stage 2', while financial assets that are considered to be credit impaired will be in 'stage 3'. The loss allowance for purchased or originated credit impaired (POCI) financial assets will always be measured at an amount equal to lifetime ECL, as explained below.

Allocation of Exposures to Stages
The Bank will distinguish financial assets between those which are measured based on 12-month ECLs (stage 1) and those that carry lifetime ECLs (stage 2 and 3), depending on whether there has been a significant increase in credit risk as evidenced by the change in the risk of default occurring on these financial assets between the reporting date and origination date.

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the NBS definitions. In particular, the Bank will determine that financial instruments are in stage 3 by applying consistent measures of default across all of its portfolios:

- the objective criterion of 90 days past due and;
- the existence of unlikeness to pay (UTP) criteria.

Accordingly, upon transition, the Bank considers all non-performing exposures in accordance with NBS definitions as credit-impaired and classifies those exposures at stage 3 for financial reporting purposes.

Purchased or originated credit impaired (POCI) financial assets, which include assets purchased at a deep discount and substantially modified assets arising from derecognition of the original asset and are considered originated credit impaired, are not subject to stage allocation and are always measured on the basis of lifetime ECL. The Bank will recognize interest income of financial assets at stage 3 as well as POCI by applying the effective interest rate (EIR) on their net carrying amount.
Financial assets that experience a significant increase in credit risk since initial recognition will be in stage 2. In assessing whether a financial asset has experienced a significant increase in credit risk since initial recognition, the Bank intends to use a combination of quantitative, qualitative and backstop criteria including:

- relative change of the actual remaining lifetime probability of default compared to the lifetime probability of default at initial recognition;

2. Summary of significant accounting policies (continued)

- relative change of the 12-month probability of default compared to the 12-month probability of default at initial recognition;
- absolute change of the actual remaining lifetime probability of default compared to the lifetime probability of default at initial recognition;
- absolute change of the 12-month probability of default compared to the 12-month probability of default at initial recognition;
- watch list status;
- forbearance; and
- 30 days past due as backstop indicator.

In the calculation of the first time adoption impact, the Bank used absolute thresholds on the 12-month probability of default (along with watch list status, forbearance and 30 days past due) as a simplified rule to determine exposures which should be allocated to stage 2. The thresholds have been defined prudently, taking into account historical experience and characteristics of the Bank's portfolio. However, the Bank plans to enhance the staging allocation approach, by fully implementing the aforementioned criteria regarding change of the probability of default.

Management may apply temporary individual or collective overlays on exposures sharing the same credit risk characteristics to take into account specific situations which otherwise would not be fully reflected in the impairment models.

Hence, upon transition, the Bank considers all performing forborne loans as stage 2, along with any performing exposures that have been assessed to have experienced a significant increase in credit risk since initial recognition.

The Bank will classify all remaining financial assets which are not classified at stage 2, 3 or POCI in stage 1, measured based on 12-month ECL. The Bank will recognize interest income of financial assets at stage 2 and at stage 1, by applying the EIR on their gross carrying amount.

When the criteria for stage 2 classification are no longer met and the financial asset is not credit impaired, it will be reclassified to stage 1. In addition, subsequent transfers from stage 3 to stage 2 will take place when the financial asset ceases to be credit impaired based on the assessment as described above. Generally, transition among stages 1, 2 and 3 is allowed based on meeting condition of the given stage.

Measurement of expected credit losses
The measurement of ECLs will be a probability-weighted average estimate of credit losses that will reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered.

For the purposes of measuring ECL, the Bank will estimate expected cash shortfalls, which reflect the cash flows expected from all possible sources including collateral and other credit enhancements that are part of the contractual terms and are not recognized separately. In the case of a collateralized financial instrument, the estimated expected cashflows related to the collateral reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the discounted costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable.

2. Summary of significant accounting policies (continued)

ECLs will be calculated over the maximum contractual period over which the Bank is exposed to credit risk. The maximum contractual period is defined based on the substantive terms of the instrument, including the Bank's ability to demand repayment or cancellation and the customer's ability to require extension. However, for revolving credit facilities (i.e. those that include both a loan and an undrawn commitment component) the period of exposure is determined in accordance with the Bank's expected credit risk management actions to mitigate credit risk, including terminating or limiting credit exposure. In doing so, the Bank will consider its normal credit risk mitigation process, its past practice, future intentions and expected credit risk mitigation actions, the period over which the Bank was exposed to credit risk on similar instruments, and the length of time for defaults to occur on similar instruments following a significant increase in credit risk.

ECLs on individually large credit impaired loans , above pre-defined materiality thresholds set in accordance with the Group's risk management policy are measured individually. For the remaining retail exposures and some corporate exposures, ECLs will be measured on a collective basis. This incorporates borrower specific information, collective historical experience of losses and forward-looking macroeconomic information.

The ECL calculation is based on the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF). Generally, the Bank intends to derive these parameters from internally developed statistical models and historical data, mainly observed defaults and losses.

The PD represents the likelihood of a borrower defaulting on its financial obligations either on the next 12 months or over the expected remaining lifetime. In accordance with IFRS 9, the Bank will use point-in-time unbiased PDs that will incorporate forward looking information and macroeconomic scenarios.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD (see below). In the calculation of the LGD, the Bank will separately observe collections and costs from real estate collateral sales and collections from other sources.

EAD represents the exposure that the Bank expects to be owed at the event of default. The EAD of a financial asset will be the expected gross carrying amount in the event of default. Estimation of the EAD for off-balance positions, such as guarantees and loan commitments, will be based on the regulatory credit conversion factors.

The PD and LGD used for accounting purposes may differ from those used for internal capital requirements calculation. PD under IFRS 9 is a point-in-time estimate whereas for internal capital requirements calculation purposes PD is a 'through-the-cycle' estimate. In addition, LGD for internal capital requirements calculation purposes is based on loss severity experienced during economic downturn conditions, while under IFRS 9, LGD reflects an unbiased and probability-weighted amount.

The CCF factor is used to convert the amount of a credit line and other off-balance sheet amounts to an EAD amount. CCFs that will be used in the ECL calculation will be based on regulatory values.

2. Summary of significant accounting policies (continued)

Forward looking information
Forward looking information (FLI) reflecting future expected evolution on the market required by the Standard is incorporated into particular components (PD, LGD, etc.). The Bank will evaluate a range of forward looking economic scenarios in order to achieve an unbiased and probability weighted estimate of ECL, using justified set of weight for particular scenarios.

Hedge accounting
IFRS 9 includes a new general hedge accounting model which aligns hedge accounting more closely with risk management. Under the new model, more hedging strategies may qualify for hedge accounting, new hedge effectiveness requirements apply and discontinuation of hedge accounting will be allowed only under specific circumstances. The IASB currently has a separate project for the accounting of macro hedging activities. Until the above project is completed, entities have an accounting policy choice to continue applying the hedge accounting requirements in IAS 39.

IFRS 9 Implementation Program
A Group-wide IFRS 9 Program, led jointly by Group Risk and Group Finance, was initiated in 2015 to ensure a robust and high quality implementation in compliance with the requirements of the Standard and respective regulatory guidance.

At the Bank level, a Steering Committee has been established in order to monitor implementation of the project related to IFRS 9 requirements. The Steering Committee includes senior management of the Bank and it is mandated to oversee the implementation in accordance with the Standard, monitor timelines and the quality of the project's deliverables, review project's results, approve deliverables and changes in the scope of the project where appropriate. The Executive Board, the Risk Committee, the Audit Committee, the Board of Directors, Group Risk and Group Finance have been regularly informed about the project implementation status. Day-to-day tasks have been handled by the project team, formed for the purpose of IFRS 9 implementation.

The Bank has largely completed the IFRS 9 accounting policies, and the ECL methodologies while further refinements will continue during 2018.

Comparative information on transition
The new requirements of IFRS 9 will be applied retrospectively by adjusting the Bank's balance sheet on the date of transition on 1 January 2018. The Bank intends to apply the exemption not to restate comparative figures for prior periods; therefore the Bank's 2017 comparatives will be presented on an IAS 39 basis.

Impact assessment
The impact of transitioning to IFRS 9, before tax, is estimated to be RSD 999 million at 1 January 2018, as depicted in the table below per IFRS 9 area.

2. Summary of significant accounting policies (continued)

Impact attributed to:	*IFRS 9 impact as of 1 January 2018 (in RSD m)*
Impairment	
- Loans and advances to customers	1,128
- Other financial assets	(115)
Total impairment	**1,013**
Classification & Measurement	(14)
Hedging	-
Total IFRS 9 impact	**999**

Further analysis of the IFRS 9 impact is presented below.

a. *Impairment allowance for ECL –Loans & Advances to Customers*

The following table presents the IFRS 9 impact analysis per stage and type of lending exposure according to NBS classification as of 1 January 2018.

in 000 RSD

Stage	Total Gross Exposure	Total On-balance	Total Off-balance	Of which:		Impairment Allowance:		Change
				Performing	Non-performing	IAS 39	IFRS 9	
Stage 1	110,114,645	86,807,624	23,307,021	110,114,645	-	400,876	363,394	(37,482)
Stage 2	11,387,579	10,755,331	632,249	11,387,579	-	89,460	432,654	343,194
Stage 3	19,859,581	17,197,250	2,662,331	-	19,859,581	8,271,801	9,094,229	822,428
Total	**141,361,805**	**114,760,205**	**26,601,601**	**121,502,224**	**19,859,581**	**8,762,137**	**9,890,277**	**1,128,140**

In terms of impact per stage of lending exposures, the outcome of the exercise demonstrated a minor positive effect of RSD 37,482 thousand in Stage 1, a negative impact of RSD 343,194 thousand in Stage 2 and a negative impact of RSD 822,428 in Stage 3. The main drivers of the impact from the move to the IFRS 9 ECL model are set out below.

- Implementation of the models for PD parameter in line with IFRS 9 requirements
- Lifetime ECL calculation for exposures with significant increase of credit risk (stage 2)
- Improvement of LGD assessment

In respect to the PD parameter, the Bank implemented a new model for PD assessment for Corporate clients, which incorporates financial and qualitative variables. Behavioral models have been developed and implemented for Retail clients (SBB, mortgage and consumer exposures) PD assessment.

Regarding LGD parameter, the methodology for the assessment has been considerably improved. Namely, instead of basing the loss given default calculation on the collection from exposures that are more than 360 days past due, LGD is now assessed for exposures that are more than 90 days past due. At the same time, a prudent approach has been defined for LGD for unsecured exposures, which reaches 100% already after 3 years, as well as for secured exposures, where collateral haircuts for the collective assessment increase to 100% for the exposures which are long time in default status (mainly affecting exposures from SBB segment).

2. Summary of significant accounting policies (continued)

b. *Impairment allowance for ECL – Investment securities, banks and other financial assets*

The estimated impact of ECL calculation for investment securities, banks and other financial assets is expected to be positive: RSD 115,274 thousand. This is primarily attributed to ECL impairment of exposures to banks, which is presented in the following table:

in 000 RSD

Stage	Total Gross Exposure	Impairment Allowance:		Change
		IAS 39	IFRS 9	
Stage 1	29,876,419	144,052	4,246	(139,806)
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Total	**29,876,419**	**144,052**	**4,246**	**(139,806)**

The following table presents the ECL allowance of debt securities i.e. investment securities carried at amortized cost, per IFRS 9 portfolio:

in 000 RSD

Stage	Total Gross Amount	Impairment Allowance:	
		Investment securities at amortised cost	Total
Stage 1	13,026,503	22,510	22,510
Stage 2	-	-	-
Stage 3	-	-	-
Total	**13,026,503**	**22,510**	**22,510**

(1) *Total gross amount is defined as the amortized cost of investment securities before any loss allowance.*

c. *Classification and Measurement*

The estimated impact from the classification and measurement of IFRS 9 is expected to be positive in the amount of RSD 14.1 million before tax as of 1 January 2018. It is related to release of revaluation reserves due to reclassification of shares from AFS to FVTPL.

Regulatory capital

The Bank's estimation of the capital impact from the initial application of IFRS 9 is an increase in the fully loaded CET 1 ratio by 49 basis points and increase of regulatory capital by 50 basis points. As a result, CET 1 ratio on a fully loaded basis is expected to be increased from 29.15% to 29.64% and CAD ratio from 29.15% to 29.65% due to the first time application of IFRS 9, corresponding to an impact of approximately RSD 278 million in regulatory capital as at 1 January 2018.

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

The Bank's estimation of the capital impact from the initial application of IFRS 9 as shown in the table below:

in m RSD	As at		Total change
	31 December 2017 **IAS 39**	**01 January 2018** **IFRS 9**	**IFRS 9 vs. IAS 39**
Common equity tier I Capital	34,008,884	34,286,739	277,855
Total regulatory Capital	34,013,184	34,291,039	277,855
Risk weighted assets	116,682,915	115,669,620	(1,013,295)
Common equity tier I (CET1) Ratio	29.15%	29.64%	0.49%
CAD Ratio	**29.15%**	**29.65%**	**0.50%**

All the assumptions, accounting policies and calculation techniques used by the Bank for the estimation of the IFRS 9 impact will continue to be subject to reviews and refinements and therefore the estimated impact may change until the Bank finalizes its financial statements for the year ending 31 December 2018.

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments (effective 1 January 2018). Standard establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognize and replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programs'.

IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 'Financial Instruments' or IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures';
- Lease contracts within the scope of IAS 17 'Leases' (or IFRS 16 'Leases'); and
- Insurance contracts within the scope of IFRS 4 'Insurance Contracts'.

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15.

IFRS 15 specifies that revenue should be recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognizing revenue for performance obligations as they are satisfied and the control of a good or service (i.e. the ability to direct the use of and obtain the benefits from them), is obtained by the customer. For services provided over time, such as management fee income earned for asset management services provided and variable performance fee income based on the return of the underlying asset at a particular date, consideration is recognized when the service is provided to the customer provided that it is probable that a significant reversal of consideration will not occur.

Extensive disclosures will be required in relation to revenue recognized and expected from existing contracts.

IFRS 15 was amended in April 2016 to provide several clarifications, including that in relation to the identification of the performance obligations within a contract.

2. Summary of significant accounting policies (continued)

The Bank, is currently in the process of finalizing the impact assessment of IFRS 15, however the adoption of the standard is not expected to have a significant impact on the Bank's financial statements as net interest income, which is a primary revenue stream of the Bank, is not impacted by adoption of IFRS 15 and the existing Bank accounting treatment for revenue from contracts with customers is generally in line with IFRS 15.

IFRS 16, Leases (effective 1 January 2019). IFRS 16, which supersedes IAS 17 'Leases' and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17. The new standard provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment.

The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

Accordingly, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short term leases and leases of low value assets. Additionally, the accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

The Bank is currently assessing the impact of IFRS 16 on its financial statements, and it is impracticable to quantify its estimated impact as at the date of the publication of these financial statements. Operating lease commitments currently in place are set out in note 36.

IFRS 17, Insurance Contracts (effective 1 January 2021). IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features that an entity issues provided it also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured in each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e amounts repaid to policyholders even in the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

IFRS 17 is not relevant to the Banks's activities.

2. Summary of significant accounting policies (continued)

Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2018). The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2014-16 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- ***IAS 28 'Investments in Associates and Joint Ventures':*** It is clarified that venture capital organizations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit or loss.

The adoption of the amendment is not expected to impact the Bank's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective 1 January 2019). The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2015-17 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- ***IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements':*** It is clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.
  - If a party obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party remeasures the entire previously held interest in the assets and liabilities of the joint operation at fair value.
  - If a party obtains joint control, then the previously held interest is not remeasured.
- ***IAS 12 'Income Taxes':*** It is clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognized in profit or loss, other comprehensive income or equity, depending on where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.
- ***IAS 23 'Borrowing costs':*** It is clarified that any borrowing originally made to develop a qualifying asset should be treated as part of general borrowings when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The adoption of the amendments is not expected to impact the Bank's financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective 1 January 2018). The amendment provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the entity initially recognized the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt.
The adoption of the amendments is not expected to impact the Bank's financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments (effective 1 January 2019, not yet endorsed by EU).The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. In such a circumstance, recognition and measurement of current or deferred tax asset or liability according to IAS 12 is based on taxable profit (tax loss), tax bases, unused tax losses and tax credits and tax rates determined applying IFRIC 23.

2. Summary of significant accounting policies (continued)

According to the interpretation, each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty and the entity should assume that a tax authority with the right to examine tax treatments will examine them and will have full knowledge of all relevant information.
If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it should determine its accounting for income taxes consistently with that tax treatment. If it concludes that it is not probable that the treatment will be accepted, the effect of the uncertainty in its income tax accounting should be reflected in the period in which that determination is made, using the method that best predicts the resolution of the uncertainty (ie the most likely amount or the expected value method).

Judgments and estimates made for the recognition and measurement of the effect of uncertain tax treatments should be reassessed whenever circumstances change or new information that affects those judgments arise (eg actions by the tax authority, evidence that it has taken a particular position in connection with a similar item or the expiry of its right to examine a particular tax treatment).
The adoption of the interpretation is not expected to impact the Bank's financial statements.

c) Position of the Group

Greece's real GDP grew by 1.4% in 2017, according to the Hellenic Statistical Authority's (ELSTAT) first estimate from -0.02% in 2016, while the real GDP growth consensus forecast for 2018 is at 2.1% (compared to an official target of 2.5%). The unemployment rate in December 2017 was 20.8%, based on ELSTAT data (31 December 2016: 23.5%). On the fiscal front, Greece's primary surplus for 2017 is expected at 2.44% of GDP, according to the 2018 Budget data, outperforming the respective Third Economic Adjustment Program (TEAP) primary balance target of 1.75%. According to Bank of Greece and ELSTAT data the current account deficit decreased at -0.8% of GDP in 2017 (2016: -1.1 %).

Greece, following the conclusion of the TEAP second review in June 2017 and the consequent release of the € 8.5 bn loan tranche, reached a staff level agreement with the European institutions on the policy package of the third review on 4 December 2017 and implemented all prior actions by early 2018, which paved the way for the disbursement of the first sub-tranche of € 5.7 bn in the second half of March 2018. The second sub-tranche of € 1 bn will be disbursed in the second quarter of 2018 subject to positive reporting by the European institutions on the clearance of net arrears and the unimpeded flow of e-auctions. On the back of the aforementioned positive developments, Greece returned to the financial markets through the issue of a € 3 bn five-year bond at a yield of 4.625% on 24 July 2017 (for the first time since July 2014) and a € 3 bn seven-year bond at a yield of 3.5% on 8 February 2018. The proceeds of the bond issues are used for further liability/debt management and for the build-up of a state cash buffer that would facilitate the country's market access after the end of the program in August 2018.

The completion of the fourth and final review of the TEAP, which will be carried out by June 2018 according to the implementation plan, an expected significant rise in investments (2018 Budget estimate at 11.4% compared to 9.6% increase in 2017), and a forecasted strong tourism season support expectations for a further improvement in domestic economic activity in 2018. The decisive implementation of the reforms agreed in the context of the TEAP, the implementation of further debt relief measures in accordance with 24 May 2016 Eurogroup decisions, the mobilization of European Union (EU) funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model will facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a strong and sustainable growth path.

2. Summary of significant accounting policies (continued)

The main risks and uncertainties are associated with (a) the possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, (b) the possible delays in the agreement of the post-program relation between Greece and the Institutions, (c) the impact on the level of economic activity and on the attraction of direct investments from the fiscal and social security-related measures agreed under the reviews of the TEAP, (d) the ability to attract new investments in the country, (e) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (f) the possible slow pace of deposits inflows and/ or possible delays in the effective management of non-performing exposures (NPEs) as a result of the challenging macroeconomic conditions in Greece and (g) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy.

In accordance with the agreement with the European partners the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the European Stability Mechanism (ESM) program. The gradual stabilisation of the macroeconomic environment, following the completion of the second and the third review of the TEAP, has enhanced Greece's credibility towards the international markets, improved the domestic economic sentiment and facilitated the return of deposits as well as the further relaxation of capital controls. The successful completion of the fourth review of the TEAP and an agreement on the post-program relation of Greece with its official creditors will help further reinstating depositors' confidence and thus accelerate the return of deposits, and it will positively influence the financing of the economy.

The Group monitors closely the developments in the Greek macroeconomic environment taking into account its direct and indirect exposure to sovereign risk. A key priority is the active management of NPEs, with the aim to substantially reduce their stock in accordance with the Bank's operational targets and taking advantage of the Group's internal infrastructure, the important legislative changes and the external partnerships that have taken or are expected to take place.

In parallel, the Group recorded a net profit attributable to shareholders of € 104 million for 2017. In the context of its strategic plan, the Bank has undertaken significant initiatives towards the fulfillment of the remaining commitments of the restructuring plan and it proceeded with the redemption of the preference shares by issuing Tier 2 bonds at early 2018, which count in its total capital adequacy ratio. The Group's Common Equity Tier 1 (CET1) ratio stood at 17.9 % at 31 December 2017, while the respective pro-forma ratio with the redemption of preference shares/issue of Tier 2 bonds and the completion of the sale transaction in Romania would be 15.8%. The impact of the adoption of IFRS 9 on Group's CET1 as at the end of 2018, according to the transitional arrangements for the 5-year phase in period, will be 16 bps.

Eurobank, along with the other three Greek systemic banks directly supervised by the European Central Bank (ECB), undergoes the 2018 EU-wide stress test launched by the European Banking Authority (EBA) on 31 January 2018. The results for the Greek systemic banks are expected to be published in May 2018.

Within an environment of positive growth, the Group is well on track to achieve the 2018 NPE reduction targets, maintain profitability, continue the creation of organic capital and strengthen its position in the Greek market and abroad.

d) Position of the Bank

As at 31 December 2017, the Bank does not rely on funding from the Parent bank but predominantly on locally collected deposits, its own capital base and, to a lesser extent, funding from international financial institutions. The bank's capital adequacy ratio (as prescribed by NBS) is higher than the regulatory minimum of 8% (Note 5.5).

2. Summary of significant accounting policies (continued)

Article 33 of the Law on Banks (RS Official Gazette No 107/05, 91/10 and 14/15) prescribes that a bank's exposure to all related parties must not exceed 25% of the bank's regulatory capital. As at 31 December 2017, 31 December 2016 and the date of approval of these financial statements, the Bank's exposures to the related parties of the Bank did not exceed the amount prescribed by the Law.

e) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Assets and liabilities denominated in foreign currencies have been translated into the functional currency at the market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the income statement.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

f) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in RSD (Serbian dinar), which is the Bank's functional and presentation currency.

2.2. Income statement

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been impaired as a result of a loss event, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. Summary of significant accounting policies (continued)

b) Fee and commission income

Fees and commissions, except for those, which form part of the effective interest rate of the instruments, are generally recognized on an accrual basis when the service has been provided. Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other services.

(c) Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

2.3. Income tax expense

Income tax expense comprises current and deferred tax. Current income tax presents the amount calculated and paid to the tax authorities based on legislations of Republic of Serbia. Estimated monthly instalments are calculated by the Bank and paid in advance on a monthly basis.

Income tax at the rate of 15% is payable based on the profit calculated as per the tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain differences and reduced for certain investments made during the year. Tax return is submitted to tax authorities until the 30 June of the following year.

Deferred income tax is provided, using the liability method, for tax loss carry forwards and temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax basis of assets and liabilities at the balance sheet date, and their amounts disclosed for reporting purposes, which will result in taxable amounts in future periods.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be sufficient to enable realization (utilization) of deductible temporary differences. The deferred tax asset on income tax losses carried forward is recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred tax related to changes in fair values of available-for-sale investments and cash flow hedges which are recognised to other comprehensive income, is also recognised to other comprehensive income, and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred income tax is recognized in the current year's income statement.

2. Summary of significant accounting policies (continued)

2.4. Employee benefits

a) Employee's benefits

Short term benefits to employees include salaries and social contributions. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to make payments to the pension fund of Republic of Serbia in accordance with the defined contribution plan. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

b) Other employee's benefits

The Bank provides other benefits for the retirement. An employee is usually entitled to these benefits if they were employees of the Bank until reaching the prescribed age for retirement and the minimum required years of employment. The above mentioned benefits are accumulated during the service. The defined retirement obligations are estimated annually by an independent certified actuary through the projected credit unit valuation method. The present value of benefit obligations is determined by discounting the expected future cash payments by reference to the interest rates of the high quality bonds expressed in the same currency, which mature approximately at the same period when retirement obligations are due.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.5. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

2. Summary of significant accounting policies (continued)

Financial assets and financial liabilities are designated for at fair value through profit or loss when:

- Doing so significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity investments are stated at amortized cost using effective interest rate method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The amortized cost is calculated taking into consideration all discounts and premiums received at the date of purchase. The Bank assesses its intention and ability to hold to maturity its held-to-maturity investments not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

d) Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

e) Financial instruments - accounting treatment

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognized at fair value increased for transactions costs for all financial assets not held at fair value through profit or loss. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on equity instruments are recognized in the income statement when the entity's right to receive payment is established.

2. Summary of significant accounting policies (continued)

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.6. Derivatives

Derivatives are financial instruments:
(a) whose value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;
(b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
(c) that are settled at a future date.

Derivative financial instruments, including foreign exchange contracts, forward currency agreements, currency swaps, and other derivative financial instruments are usually not recognised initially on the face of the balance sheet as they are often entered into at no cost (i.e. the net fair value of the receivables and payables is zero). When the net investment is not zero derivatives are are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into, and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The changes in the fair value of derivatives are included in the income statement. The Bank does not apply hedge accounting.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.7. Impairment of financial assets

a) Assets carried at cost and amortized cost

The Bank establishes allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The assessment of incurred losses is performed at individual level for corporate and individually significant retail exposures and at collective level for groups of financial assets with similar credit risk characteristics.

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

2. Summary of significant accounting policies (continued)

The criteria that the Bank takes into consideration to determine if there is an objective evidence of impairment include:

- Delinquency in contractual payments of principal or interest;
- Significant financial difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, or assesses zero provisions at individual level, it includes the asset in the group of financial assets with similar credit risk characteristics and collectively assesses its impairment. Assets that are individually assessed for impairment and for which an impairment loss is calculated at individual level, are not included in a collective assessment of impairment.

The amount of the loss for individually assessed financial assets is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is updated using the latest data on the variable part of an interest rate. The calculation of the present value of the estimated future cash flows may include cash flows from liquidation of collaterals. These cash flows include inflows that may result from foreclosure of collateral less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's portfolio segments, as well as rating model or days in delay). Those characteristics are relevant for the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due, according to the contractual terms.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed and back tested regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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 amount of the reversal is recognized in the income statement in impairment charge for credit losses.

When a loan is uncollectible, it is written off. Such loans are written off after all the necessary procedures have been completed and after the Bank recognises loss allowance in the amount of 100% of its gross carrying amount.

2. Summary of significant accounting policies (continued)

b) Assets classified as available for sale

The Bank assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is removed from other comprehensive income and recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

2.8. Cash and cash equivalents

Cash and cash equivalents comprise of cash on Giro and current accounts in dinars, cash in hand, other cash and cash equivalents in dinars, foreign currency account, cash in hand and other cash and cash equivalents in foreign currency.

2.9. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the securities; the corresponding liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to purchase and sell ("reverse repos") are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between purchase and sale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

2.10. Investments in associates

Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 present of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Bank's share of net assets of an associate are recognised as follows: (i) the Bank's share of profits or losses of associates is recorded in the profit or loss for the year as share of result of associates; (ii) the Bank's share of other comprehensive income is recognised in other comprehensive income and presented separately. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2.11. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	2017 in years	2016 in years
Buildings	77	77
Leasehold improvements	up to 18	up to 18
Computer equipment	5-7	5-7
Furniture and other equipment	7-25	7-25
Motor vehicles	5	5

The assets' residual value represents the estimated amount that the Bank might obtain at present through the sale of the asset, decreased by the estimated cost of sale. If the Bank expects to utilize the asset until the expiration of its useful life, the residual value amounts to zero. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/expenses in the income statement.

2.12. Intangible assets

Licenses

Licenses are initially recognized at cost. They have limited useful life and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives (from 1 to 15 years).

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Costs associated with developing or maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development.

Computer software development costs recognized as assets are amortized over their estimated useful lives from 3 to 15 years.

2.13. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (continued)

2.14. Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in "Other Assets". Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value. Any gains or losses on liquidation are included in "Other operating income".

2.15. Leases

The Bank is a lessee

Leases entered into by the Bank are primarily operating leases. With an operating lease, a significant part of both risk and benefits remains with the lessor. The total payments made under operating leases are charged to other operating expenses in the income statement on straight-line basis over period of the lease.

The Bank has entered into commercial leases for premises, equipment and motor vehicles. The majority of the Bank's leases are under long-term agreements, according to the usual terms and conditions of commercial leases of each jurisdiction, including renewal options. The Bank's lease agreements, do not include any clauses that impose any restriction on the Bank's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

When an operating lease is terminated before lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

The Bank is a lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

The Bank is leasing the assets under operating lease. The asset under operating lease is included in the balance sheet of the Bank based on the nature of the asset.
Lease income is recognised over the term of the lease on a straight-line basis.

2.16. Share capital

a) Ordinary shares and share issue costs

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

b) Dividends on ordinary shares

Dividends are recognized as liabilities for the period in which the decision of their payment has been reached. Dividends approved for the year after the balance sheet date are dealt with in the subsequent events note.

c) Earnings per share.

Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

2. Summary of significant accounting policies (continued)

2.17. Borrowings, including debt securities in issue

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

2.18. Due to banks

Amounts due to banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

2.19. Customer accounts

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

2.20. Provisions

Provisions for restructuring costs and legal claims are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.21. Other liabilities

Other liabilities are recognized initially at fair value net of transaction costs incurred. Other liabilities are subsequently stated at amortized cost.

Other liabilities are classified as current liabilities, unless the Bank has indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.22. Related party transactions

Related parties include associates, fellow subsidiaries, directors, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and on an arm's length basis.

2.23. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement.

3. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% increase in the actual loss experience compared to the estimated future discounted cash flows from individually assessed loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of RSD 216,098 thousand. On contrary, a 10% decrease in the actual loss experience compared to the estimated future discounted cash flows from individually assessed loans, would result in an decrease in loan impairment losses of RSD 510,953 thousand.

b) Provisions for litigation cases

The Bank continuously monitors status of litigation cases and as a part of that process Bank performs testing of the adequacy of calculated provisions on quarterly basis. In making this judgment, the Bank divided all litigation cases in two major groups: a) Litigation cases for which provisions are assessed on the individual basis and b) Interest rate related litigation cases for which provisions are assessed and monitored on the "portfolio" level. i.e. assessment is made whether total level of provisions is adequately covering claim amount plus penalty interest.

c) Uncertain tax position

The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

All amounts are expressed in 000 RSD unless stated otherwise

3. Critical accounting estimates and judgments (Continued)

d) Deferred income tax asset recognition.

The recognized deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the income statement. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

e) Fair value of financial assets and liabilities

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 5.6.

4. Financial Assets per categories and classes

Financial assets per categories and classes are as follows:

	31 December 2017	31 December 2016
Cash and balances with Central bank	18,005,519	21,714,061
Loans and receivables	120,438,127	107,064,262
Financial assets at fair value through profit or loss held for trading	322,759	26,712
Financial assets available for sale (including pledged assets - Note 20)	13,048,315	15,686,119
Other asset (financial part)	477,605	76,254
Total	**152,292,325**	**144,567,408**
Pledged assets (Note 20)	**3,110,300**	**692,590**

5. Risk management policies

The Bank's activities expose it to a variety of financial risks, which have to be properly managed, i.e. identified, measured, monitored, controlled and if necessary mitigated. Risk management division is in charge of the oversight and management of the identified risks. The Bank has defined procedures and methodologies for risk identification, measurement, monitoring, mitigation and risk management overall, in accordance with the relevant regulation and best practice.

The Bank's risk management policies are designed to identify and analyse exposure to risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information and reporting system.

The Bank is exposed to the following most important risks:

5.1. Credit risk
5.2. Market risk
5.3. Liquidity risk
5.4. Operational risks

Market risk includes:

- Foreign currency risk
- Interest rate risk
- Other price risks

5.1. Credit risk

Credit risk is the risk of negative impact on the financial result and capital of the bank if a debtor fails to meet its contractual obligations. For the risk management reporting purposes, the Bank considers all relevant elements of credit risk exposure (such as individual obligor default risk, concentration risk in terms of groups of related parties, sector concentration risk).

5.1.1. Management of credit risk

The Bank approves loans in accordance with credit policies. Maturity dates of loans approved and interest rates are aligned with the purpose of loans, type of the loan or client and creditworthiness of its clients.

The Board of Directors has delegated responsibility for the approval of credit exposures to several different levels in accordance with the limits set forth by the Board. The underlying foundation of the credit processes is the application of the "four-eye principle", which assumes involvement of the business units („front office“) and Risk Management for all exposures above the business unit level of approval. In case of exposures approved within the business unit level of approval, the "four-eye principle" is ensured within that business unit.

Business Units, under the Corporate Banking Division, incorporate the following:

- Large Corporate (LC) Department
- Small & Medium Enterprises (SME) Department

Business Divisions, responsible for retail lending operations, incorporate the following:

- Household Lending Division
- Small Business Lending Division

5. Risk management policies (continued)

The Risk Management Division (RMD) incorporates the following units handling credit risk:

- Credit Risk Department (CRD)
- Credit Control Department (CCD)
- Risk Modelling Department
- Integrated Risk Management Department
- Collateral Management Department

Troubled Asset Sector is also involved in credit risk management, by handling Non-Performing Loans (NPL Department) and collection in Retail segment (Retail Collection Division).

Credit Control Department, Credit Risk Department and Risk Modelling Department are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. This task is performed by Credit Control Department and Credit Risk Department.
- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the relevant business unit, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same assessment process.
- Limiting concentrations of exposure to counterparties, countries and industries (for loans and advances), and by issuer, credit rating and market liquidity (for investment securities).
- Developing and maintaining the Bank's risk grading (rating) policy in order to categorize exposures according to the level of exposure to credit risk enabling to put more focus on the observed risks. The rating system is maintained by Risk Modelling Department. The rating system is used in the calculation of the credit risk loss allowance. The current risk grading framework for wholesale placements consists of eleven grades, while for retail exposures distinction is made depending on the delinquency (days past due). Ratings are subject to regular reviews.

Reviewing compliance of business units with defined exposure limits, including those for selected industries and product types is the responsibility of Credit Control Department. Reporting about the indicators of the quality of the portfolios and information are regularly provided to various Bank's bodies, based on which appropriate corrective actions are considered.

Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

The Bank has developed and adopted a credit policy for each lending business unit. Each credit policy of Eurobank a.d. (hereinafter: the Credit Policy) defines basic concepts, guidelines and rules that ensure the proper management of the process of approving, disbursing, monitoring and collecting of loans and other exposures.

Credit Policy includes:

- the goals of the credit policy,
- the basic concepts of credit policy,
- lending principles,
- the organization of credit operations,
- responsibilities and decision making,
- the procedure for granting loans and other placements,
- guidelines on credit risk analysis,
- acceptable collateral instruments,
- procedures for collecting outstanding amounts.

5. Risk management policies (continued)

For the purposes of implementing the Credit Policies, relevant guidelines and procedures have been defined.

When assuming credit risk, the Bank applies a number of important fundamental rules.

A prerequisite for every financing transaction is the understanding of the economic background of the transaction.

A loan is granted only when the Bank has sufficient information on the borrower's creditworthiness. The Bank will not grant a loan (or increase an existing one) to a borrower who is unwilling or unable to provide sufficient information.

Collateral is accepted only to support an exposure. It cannot serve as a substitute for the borrower's ability to meet obligations (exception: Lombard loans, cash collateralized loans, etc.).

The large exposures towards any borrower (or group of connected borrowers), exposures towards related parties as well as the total exposure of the Bank (both on and off-balance sheet), is kept within limits prescribed by the Law on Banks and relevant decisions of the National bank of Serbia.

The Bank approves new loans or decides to extend or not to extend the existing ones based on creditworthiness of the client, as well as details and characteristics of the transaction.

All Bank credit facilities are based on relevant approvals, which lay down the terms and other conditions for their implementation. The approval levels and limits are defined by the relevant Board of Directors Decision on approval levels.

For wholesale placements, appropriate approval authority levels depending on exposures are defined, with the highest one being Board of Directors (or other nominated authority) in case of large exposures and exposures to related parties.

For retail placements, there are also different approval levels depending on the type of business (consumer lending, mortgage lending or SBB lending), with the highest authority being specific Credit Commission for each business type.

In each committee/commission, risk management has the right of vote. All decisions must be unanimous.

In addition to the client's creditworthiness, risk limits are also determined taking into account various collateral instruments. Risk exposure to individual borrower, including banks, is limited and includes both balance and off-balance sheet risk exposures. The total risk exposure per individual client (or group of related parties) with regards to the limits, is considered and analysed prior to completion of the transaction.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Bank calculates provisions, which arise from loans and off-balance sheet exposures. Levels of provision are related to the risk grade of the placement.

Rating system for wholesale (corporate) clients

The 11 grade system derives the rating of the borrower (and not the credit facility) and it is based on the weighted average of the following risk parameters:

- Financials
- Sector
- Management
- Operations

5. Risk management policies (continued)

In addition, other factors such as debt servicing, change in the borrower's ownership, etc., may affect the final rating of a customer.

The credit rating is based on a profound analysis of qualitative and quantitative factors:

Qualitative factors: are those that deal with the borrower's management, industry, operating conditions, etc.

Quantitative factors: are those that refer to a set of various ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to financial statements etc.)

Credit related commitments
The primary purpose of undrawn credit commitments is to ensure that funds are available to a customer in accordance with the agreement.

Guarantees and letter of credits expose the Bank to the credit risk as well. Appropriate credit conversion factors are applied in the process of loss allowance calculation.

5.1.2. Impairment and provisioning policy

Impaired loans and securities are loans and securities 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 / securities agreement(s). Exposures are treated as impaired in accordance with the following rules:

Consumer portfolio
- exposures in delinquency more than 90 dpd;
- exposures classified as non-performing, including non performing forborne

MLU portfolio
- exposures in delinquency more than 90 dpd;
- exposures classified as non-performing, including non performing forborne

SBB portfolio
- exposures in delinquency more than 90 dpd;
- exposures classified as non-performing, including non performing forborne.

Wholesale Banking portfolio
- exposures in delinquency more than 90 dpd;
- exposures of the clients in rating categories 8-11;
- exposures classified as non-performing, including non performing forborne

Past due but not impaired loans

Past due but not impaired loans and securities are those where contractual interest and/or principal payments are past due but the Bank assessed that there is no objective evidence of impairment. The criteria used by the Bank for the purpose of this disclosure are:

All portfolios (Consumer, MLU, SBB, Corporate)
- exposures in delinquency up to 89 days (1-89 dpd);
- Performing Forborne loans that are delinquent not more than 90 dpd.

5. Risk management policies (continued)

Allowances for impairment

The Bank recognises allowance for impairment losses which represents its estimate of incurred losses in its loan portfolio. Components of this allowance are specific loss component that relates to individually significant exposures assessed as impaired, specific loss component related to exposures that are not individually significant, but assessed as impaired, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been reported.

Impairment of wholesale (corporate) placements

Clients with materially significant exposure, in line with Bank's internal regulations and credit process, are individually assessed in order to identify existence of any impairment trigger. For exposures to borrowers assessed as impaired (with a rating 8 or worse), allowances for impairment are calculated on individual basis in accordance with IAS 39 requirements, taking into account expected cash payments, collateral sale, repayments from others sources based on the analysis of the particular client. For other exposures (ratings 1-7), provisions are calculated on collective basis, taking into account Bank's historical experience on defaults and losses, as well as coverage of exposure with the eligible collateral.

When calculating value of real estate collaterals that can be used for the purpose of credit risk mitigation, appropriate haircuts and realization periods are applied, calculated on the basis of the Bank's historical experience on collateral sales. If the estimated value of the allowance for impairment of the exposure under individual assessment equals 0, the above mentioned exposure is included in the calculation on collective basis i.e. the calculation of allowance for impairment based on historical experience, as defined by the internal regulations.

Impairment of retail placements
The classification of retail clients, except individually significant exposures, is fully based on the delinquency analysis. The required impairment allowances are computed by applying the appropriate provisioning rate to the gross exposure per each product group and subgroup (where it exists) and per each delinquency bucket. In addition, coverage of exposure with the eligible collateral is taken into account. When calculating value of real estate collaterals that can be used for the purpose of credit risk mitigation, appropriate haircuts and realization periods are applied, calculated on the basis of the Bank's historical experience on collateral sales. In case of individually assessed impaired loans, future expected cash-flows are estimated and discounted in accordance with IAS 39 requirements, in order to arrive to appropriate level of impairment.

Special reserves
For both wholesale and retail placements, as per the regulatory requirements of the National Bank of Serbia, the Bank calculates reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off-Balance Sheet Items, and other relevant regulations of the National Bank of Serbia.

Write-off policy
The Bank writes off a loan/security balance (and any related allowances for impairment losses) when it is determined that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to collect entire exposure. For unsecured retail loans, write off decisions generally are based on a product specific past due status. Any write-off is approved by the relevant body in accordance with the decision of Board of Directors. In accordance with NBS Decision (''Official Gazette of Republic of Serbia'', no. 77/2017) effective from 30 September 2017 on the accounting write-off of bank balance sheet assets, the Bank performed write-off of loans for which loss allowance equals 100% of its gross book value.

5. Risk management policies (continued)

5.1.3. Collaterals

Collaterals are the most commonly used credit risk mitigation technique. Most often the collateral consists of one or more of the following collateral instruments:

- cash deposits in dinars and foreign currencies,
- guarantees from the government, government funds or first class banks,
- guarantees from parent companies, other legal entities and individual persons,
- letters of comfort from parent companies,
- mortgage over real estate,
- pledge over movable property,
- own blank bills of exchange,
- pledge over shares or ownership stakes
- a pledge over other securities (e.g. bonds) or precious metals,
- assignment of receivables (with or without notification) etc.,
- assignment of insurance policies.

Valuations of collaterals are performed at the time of loan origination, and generally are updated periodically in accordance with the relevant internal regulations.

5.1.4. Credit risk monitoring

The Bank constantly monitors the state of the borrower's business and any change in its creditworthiness. Besides the regular evaluation of financial statements, the responsible business units carry out regular checks of the borrower's business operations. In addition, special monitoring mechanism is defined by the Credit Risk Management Policy, on individual client level for Corporate and materially significant Retail exposures, and on portfolio level for the rest of the portfolio, focusing on clients/portfolios with early indicators of increased credit risk.

The monitoring of the borrower is institutionalized through regular credit reviews. Credit reviews are prepared by the relevant business unit and approved by the relevant approval authority in accordance with Approval levels and Credit policies. In case of wholesale customers, the review frequency depends on their risk grade.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the Balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The table below represents the Bank's maximum credit risk exposure as at 31 December 2017 and 31 December 2016 respectively, without taking account of any collateral.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

	31 December 2017	31 December 2016
Credit risk exposure relating to on balance sheet assets:		
Loans and deposits to banks and other financial institutions	**14,447,514**	**12,325,886**
Less: Impairment allowance	**(144,082)**	**(80,803)**
Financial instruments at fair value through profit or loss:		
Derivative financial instruments	**322,759**	**26,712**
Loans and advances to customers:	**114,663,993**	**115,064,026**
- Corporate	46,796,973	43,666,932
- SBB	10,757,184	17,412,376
- Mortgage	18,852,090	21,913,636
- Consumer	38,257,746	32,071,082
Less: Impairment allowance	**(8,529,298)**	**(20,244,847)**
Investment securities:		
- Debt securities	**13,026,503**	**15,668,507**
Credit risk exposures relating to off-balance sheet items:		
Guarantees and other commitments	27,377,463	22,898,425
Less: Provisions	(223,613)	(229,216)
Total	**160,941,239**	**145,428,689**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

5.1.5. Loans and advances

Portfolio quality

The Bank manages the quality of financial assets through internal classification of loans and advances.

The following table presents the quality of the portfolio (gross loans, payable and performance guarantees, as well as revocable and irrevocable commitments i.e. credit risk bearing balance sheet assets and off-balance exposures) per types of exposure based on the Bank's classification system as at 31 December 2017:

	Neither past due nor impaired					
	Satisfactory quality	**Substandard quality**	**Other**	**Past due but not impaired**	**Impaired**	**Total 2017**
Loans and deposits to banks	14,437,522	-	-	-	9,992	14,447,514
Loans and receivables from customers:	91,142,618	2,625,643	21,049	3,514,921	17,359,762	114,663,993
- Corporate	40,088,728	1,061,396	21,049	343,723	5,282,077	46,796,973
- SBB	4,964,601	183,266	-	145,072	5,464,245	10,757,184
- Mortgage	14,568,848	659,005	-	202,933	3,421,304	18,852,090
- Consumer	31,520,441	721,976	-	2,823,193	3,192,136	38,257,746
Guarantees and other commitments	23,990,720	-	711,768	12,643	2,662,332	27,377,463
Total	**129,570,860**	**2,625,643**	**732,817**	**3,527,564**	**20,032,086**	**156,488,970**

Portfolio quality per types of placements based on the Bank classification system as at 31 December 2016 is presented in the table below:

	Neither past due nor impaired					
	Satisfactory quality	**Substandard quality**	**Other**	**Past due but not impaired**	**Impaired**	**Total 2016**
Loans and deposits to banks	12,325,886	-	-	-	-	12,325,886
Loans and receivables from customers:	73,875,937	2,193,190	27,579	5,493,846	33,473,474	115,064,026
- Corporate	27,511,100	1,274,631	27,579	2,641,213	12,212,411	43,666,933
- SBB	4,298,375	44,792	-	271,846	12,797,363	17,412,376
- Mortgage	16,572,033	275,808	-	322,314	4,743,481	21,913,636
- Consumer	25,494,430	597,959	-	2,258,473	3,720,219	32,071,081
Guarantees and other commitments	19,997,813	44,729	3,809	43,257	2,808,817	22,898,425
Total	**106,199,636**	**2,237,919**	**31,388**	**5,537,103**	**36,282,291**	**150,288,337**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Overdue analysis of loans and placements to banks and customers that are past due but not impaired as at 31 December 2017:

Past due but not impaired

	Up to 30 days	31 – 60 days	61 – 90 days	Over 90 days	Total 2017
Loans and receivables from customers:	2,367,263	875,976	271,532	151	3,514,922
- Corporate lending	319,522	-	24,201	-	343,723
- SBB lending	115,797	26,413	2,861	-	145,071
- Mortgage lending	41,762	146,076	14,944	151	202,933
- Consumer	1,890,182	703,487	229,526	-	2,823,195
Guarantees and other commitments	10,339	2,172	131	-	12,642
Total	**2,377,602**	**878,148**	**271,663**	**151**	**3,527,564**

Maturity analysis of loans and placements to banks and customers that are past due but not impaired as at 31 December 2016:

Past due but not impaired

	Up to 30 days	31 – 60 days	61 – 90 days	Over 90 days	Total 2016
Placements to clients:	4,357,488	858,856	277,502	-	5,493,846
- Corporate lending	2,641,213	-	-	-	2,641,213
- SBB lending	164,953	57,581	49,312	-	271,846
- Mortgage lending	83,129	231,359	7,826	-	322,314
- Consumer	1,468,193	569,916	220,364	-	2,258,473
Guarantees and other commitments	34,460	8,398	399	-	43,257
Total	**4,391,948**	**867,254**	**277,901**	**-**	**5,537,103**

The structure of classified balance and off balance assets and allowances for impairment, determined in accordance with Bank internal methodology stated as at 31 December 2017 is presented in the table below:

	Individual assessment		Group assessment		Total	
	Classified balance assets	**Allowance for impairment**	**Classified balance assets**	**Allowance for impairment**	**Classified balance assets**	**Allowance for impairment**
Corporate	5,157,012	2,936,969	41,639,960	309,253	46,796,972	3,246,222
SBB	120,672	78,732	10,636,512	2,919,837	10,757,184	2,998,569
Mortgage	132,134	330	18,719,957	528,107	18,852,091	528,437
Consumer	-	-	38,257,746	1,756,070	38,257,746	1,756,070
	5,409,818	**3,016,031**	**109,254,175**	**5,513,267**	**114,663,993**	**8,529,298**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

	Individual assessment		Group assessment		Total	
	Classified off balance assets	**Provisions**	**Classified off balance assets**	**Provisions**	**Classified off balance assets**	**Provisions**
Corporate	429,420	147,602	17,870,403	63,419	18,299,823	211,021
SBB	-	-	1,788,127	6,402	1,788,127	6,402
Consumer	-	-	7,289,513	6,190	7,289,513	6,190
	429,420	**147,602**	**26,948,043**	**76,011**	**27,377,463**	**223,613**
Total	**5,839,238**	**3,163,633**	**136,202,218**	**5,589,278**	**142,041,456**	**8,752,911**

The structure of classified balance and off balance assets and allowances for impairment, determined in accordance with Bank internal methodology stated as at 31 December 2016 is presented in the table below:

	Individual assessment		Group assessment		Total	
	Classified balance assets	**Allowance for impairment**	**Classified balance assets**	**Allowance for impairment**	**Classified balance assets**	**Allowance for impairment**
Corporate	11,295,266	7,696,680	32,371,665	267,234	43,666,931	7,963,914
SBB	728,791	516,896	16,683,585	8,733,674	17,412,376	9,250,570
Mortgage	156,774	12,126	21,756,863	733,366	21,913,637	745,492
Consumer	-	-	32,071,082	2,284,871	32,071,082	2,284,871
	12,180,831	**8,225,702**	**102,883,195**	**12,019,145**	**115,064,026**	**20,244,847**
	Classified off balance assets	**Provisions**	**Classified off balance assets**	**Provisions**	**Classified off balance assets**	**Provisions**
Corporate	453,861	145,679	13,990,900	64,447	14,444,761	210,126
SBB	2,569	1	1,790,403	13,729	1,792,972	13,730
Consumer	-	-	6,660,691	5,360	6,660,691	5,360
	456,430	**145,680**	**22,441,994**	**83,536**	**22,898,424**	**229,216**
Total	**12,637,261**	**8,371,381**	**125,325,190**	**12,102,681**	**137,962,451**	**20,474,063**

Restructured loans

In order to protect from the risk of borrower default or to minimize losses arising from default, the Bank undertakes the following measures in managing receivables: restructuring, repossession of assets in collection of receivables, initiation of court proceedings, and other measures. The Bank approves restructuring of receivables to the borrowers who experience certain setbacks in their business operations.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

2017	Individually impaired		Other		Total	
	Gross	Net	Gross	Net	Gross	Net
Corporate	4,760,721	2,170,968	55,851	55,085	4,816,572	2,226,053
SBB	2,711,332	1,366,710	184,223	183,267	2,895,555	1,549,977
Mortgage	1,598,557	1,493,974	670,785	670,657	2,269,342	2,164,631
Consumer	1,378,442	850,091	951,621	943,784	2,330,063	1,793,875
Total	**10,449,052**	**5,881,743**	**1,862,480**	**1,852,793**	**12,311,532**	**7,734,536**

2016	Individually impaired		Other		Total	
	Gross	Net	Gross	Net	Gross	Net
Corporate	8,457,206	3,866,645	1,274,326	1,259,566	9,731,532	5,126,211
SBB	6,496,817	2,060,003	44,792	44,616	6,541,609	2,104,619
Mortgage	2,352,633	2,213,275	306,691	306,516	2,659,324	2,519,791
Consumer	1,594,474	966,962	743,774	738,156	2,338,248	1,705,118
Total	**18,901,130**	**9,106,885**	**2,369,583**	**2,348,854**	**21,270,713**	**11,455,739**

Total amount of restructured loans for corporate clients at the end of 2017 amounted to RSD 4,816,572 thousand (allowance for impairment stood at RSD 2,590,519 thousand). Total amount of restructured loans SBB, Mortgage and Consumer clients amounted to RSD 7,494,960 thousand (allowance for impairment stood at RSD 1,986,477 thousand).

Forbearance is a modification of contract terms and conditions, which is considered as concession due to financial difficulties of the obligor. According to internal definition, the Bank distinguishes between Performing and Non-performing category of forborne loans as follows:

a) *Exposures are considered as Forborne Performing in the following cases (it is assumed that the exposure fulfils conditions not to be classified as Non-performing):*

- Modified contract with more favorable terms than other debtors with similar risk profile
- Total or partial refinancing of a troubled debt contract due to financial difficulties
- Modified contract which has been more than 30 dpd even if the clause was included in the original contract
- Forborne Non Performing Exposures for which conditions to be treated as cured have been met, after at least one year from the date of modification.

b) *The following cases are considered as Forborne Non Performing exposure:*

- Modification of contract terms and conditions or refinancing, when the client was under Non Performing status and for at least one year after the last concession
- A Forborne Performing exposure, which during the Forborne Performing probation period met the criteria for Non Performing status
- Modifications of exposures which were Non Performing and after one year under Forborne Non Performing probation period met the criteria for entering the Forborne Performing („cured“) status, but during the Forborne Performing probation period, the exposure was either re-modified or more than 30 days past due

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

- Renewals of forbearance coming from Forborne Performing exposure (less than 90 days past due and not unlikely to pay/defaulted/impaired), will be classified as Forborne Performing if there has been more than one additional concession during probation period.

Segmentation of Forbearance measures (indicative):

1. **Short-term forbearance measures (duration up to 2 years):** Arrears Capitalization, Arrears Repayment Plan, Reduced Payment above interest only, Interest only, Reduced Payment below interest only and Grace Period

2. **Long-term forbearance measures (duration > 2 years):** Interest Rate Reduction, Loan term extension, Split balance, Partial Debt Forgiveness/Write Down, Operational Restructuring and Debt/Equity Swap

The following table presents a summary of the types of the Bank's forborne activities as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Forbearance measures:		
Interest only schedule	1,038,936	1,482,463
Reduced payment schedule	579,409	777,284
Payment moratorium/Holidays	4,777	1,708
Term extension	341,871	2,541,163
Arrears capitalization	74,686	170,428
Hybrid (i.e. combination of more than one type)	3,620,561	3,684,313
Other	2,074,296	2,798,378
Total net amount	**7,734,536**	**11,455,737**

Credit risk mitigation (collaterals)

The amount and type of the requested collateral depends on estimated credit risk of a borrower or transaction. Conditions for all collaterals are determined by the analysis of the client's solvency, type of credit risk exposure, loan maturity, as well as the exposure amount.

Through its internal methodology, the Bank determined acceptable types of collateral and the parameters of their valuations.

Valuations of collaterals are performed at the time of loan origination, and generally are updated periodically in accordance with the relevant internal regulations.

The Bank monitors the movements in the collateral market value and demands additional collateral in accordance with the loan agreements (where it is applicable).

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Collateral overview

Collaterals per portfolio quality types (total portfolio) and caped at the level of exposure are presented in the following table:

	31 December 2017	31 December 2016
Neither past due nor impaired		
- Real estate property	37,219,430	34,494,648
- Financial assets	1,149,463	1,026,952
Past due but not impaired		
- Real estate property	386,421	1,819,399
- Financial assets	6,506	31,264
Individually impaired		
- Real estate property	13,757,949	16,386,756
- Financial assets	368,169	209,619
Total	**52,887,938**	**53,968,638**

The financial effect of collateral - impact on provisions

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on impairment loss recognized for the year. Without holding collateral and other credit enhancements, the impairment provisions would be higher by the following amounts:

	As at 31 December 2017 *(in rsd 000)*
Corporate	2,860,019
SBB	1,552,673
Mortgage	1,437,501
Consumer	281
Total	**5,850,474**

Receivables in default

The Bank pays particular attention to monitoring of defaults, by observing development of the defaulted exposures.

Bank's default definition is aligned with NBS definition stated in the Decision on Capital Adequacy of Banks. Defaults are observed on individual client (or in exceptional cases exposure) level and monitored per each portfolio in accordance with Bank's internal segmentation.

Significant decrease of defaulted exposure is partly coming from the Bank's activities in collection and restructuring, but the main reason of the deviation is the material amount of write-offs, as a direct consequence of the NBS Decision on write-offs.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

According to the Decision, all exposures which are fully covered with impairment allowance have to be written-off. The structure of classified balance assets and default receivables as of 31 December 2017 is presented in the table below:

	Value of receivable	Default receivable
- Corporate	46,796,973	5,282,077
- SBB	10,757,184	5,464,245
- Mortgage	18,852,090	3,421,304
- Consumer	38,257,746	3,192,136
Finances and insurance sector	14,447,513	9,992
Total as at 31 December 2017	**129,111,506**	**17,369,754**
Total as at 31 December 2016	**127,389,913**	**33,473,474**

5.1.6. Securities, treasury bills and other eligible bills

As at 31 December 2017, the Bank has dinar bonds of Republic of Serbia Ministry of Finance in the total amount of RSD 12,442,932 thousand (31 December 2016: RSD 12,117,793 thousand), and foreign currency bonds of Republic of Serbia Ministry of Finance in the amount of RSD 894,864 thousand (31 December 2016: RSD 3,550,714 thousand) – (Note 20). The above mentioned bonds and trading securities are not rated. The rating of country is BB stable based on Standard and Poor's rating. As of 31.12.2017 part of the RS Ministry of Finance bills in dinars in amount of RSD 3,110,300 thousand are used as pledge given as collateral for deposits taken from companies in bankruptcy.

5.1.7. Repossessed collateral

As at 31 December 2017 Bank had the following assets that were obtained by taking possession of collateral held as security:

Nature of assets	**Carrying amount**	
	31 December 2017	**31 December 2016**
Residential property	6,183	6,183

5.1.8. Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the geographical sectors of counterparties:

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

	Serbia	Greece	Other	Total
Financial assets at fair value through profit and loss held for trading	322,759	-	-	322,759
Financial assets available for sale	13,048,315	-	-	13,048,315
Loans and deposits to banks and other financial institutions	5,904,421	6,442,197	2,100,896	14,447,514
Loans and advances to customers:	**114,588,917**	**15,826**	**59,250**	**114,663,993**
- Corporate	46,779,278	-	17,695	46,796,973
- SBB	10,757,184	-	-	10,757,184
- Mortgage	18,795,463	15,826	40,801	18,852,090
- Consumer	38,256,992	-	754	38,257,746
Other assets	1,026,652	-	-	1,026,652
As at 31 December 2017	**134,891,064**	**6,458,023**	**2,160,146**	**143,509,233**
As at 31 December 2016	**134,628,504**	**3,410,809**	**5,495,186**	**143,534,499**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of counterparties:

	Commerce and services	Construction	Financial services	Manufacturing	Private individuals	Other	Total
Financial assets at fair value through profit and loss held for trading	-	-	-	-	-	322,759	322,759
Financial assets available for sale	-	-	-	-	-	13,048,315	13,048,315
Loans and deposits to banks and other financial institutions	-	-	9,494,916	-	-	4,952,598	14,447,514
Loans and advances to customers:	**33,025,887**	**4,294,824**	**4,461**	**12,733,483**	**61,023,547**	**3,581,791**	**114,663,993**
- Corporate	29,536,982	3,742,135	4,461	11,202,403	293,584	2,017,408	46,796,973
- SBB	3,488,905	552,689	-	1,531,080	3,683,870	1,500,640	10,757,184
- Mortgage	-	-	-	-	18,852,090	-	18,852,090
- Consumer	-	-	-	-	38,194,003	63,743	38,257,746
Other assets	-	-	-	-	-	1,026,652	1,026,652
As at 31 December 2017	**33,025,887**	**4,294,824**	**9,499,377**	**12,733,483**	**61,023,547**	**22,932,115**	**143,509,233**
As at 31 December 2016	**28,772,892**	**3,370,633**	**11,417,280**	**12,326,727**	**60,938,753**	**26,708,214**	**143,534,499**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

5.2. Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

5.2.1. Foreign exchange risk

The Bank is necessarily exposed to foreign exchange risk, i.e. to the risk of changes in FX rates since it has been working with different foreign currencies. Daily FX transactions cause the possible loss to the Bank due to uncertainty of the FX rate at which an open FX position can be closed, as well as in terms of negative effects of the revaluation of net open FX positions in individual currencies in the event of adverse movements in foreign exchange rates.

In order to protect Bank's equity and financial result the Bank identify, measure, monitor and manage exposure to foreign exchange risk on daily basis.

The Bank manages the exposure to foreign exchange risk in a manner that will ensure compliance of currency structure of its assets and liabilities with the risk ratios prescribed by the National Bank of Serbia, as well as with the limits prescribed in the internal acts enacted by the Bank's management and Risk Committee. Bank is using scenario analysis for measurement of FX risk.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2017				**At 31 December 2016**			
	Monetary financial assets	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Euros	69,089,441	79,440,094	11,115,207	764,554	66,950,862	80,552,244	14,540,313	938,931
CHF	13,144,315	2,176,039	(11,040,032)	(71,756)	16,824,398	2,330,135	(14,625,574)	(131,311)
Other	2,286,441	2,193,602	-	92,839	2,611,484	2,433,548	-	177,935
	84,520,198	**83,809,736**	**75,175**	**785,637**	**86,386,745**	**85,315,928**	**(85,261)**	**985,556**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

5.2.2. Interest rate risk

Interest rate risk is defined as Bank's exposure to adverse movements in interest rates which can cause negative effects on Bank's earning and economic value of capital. Interest rate risk could come in the variety of forms, including reprising risk, yield curve risk, basis and optionality risk.

In order to protect Bank's equity and financial result the Bank identify, measure, monitor and manage exposure to interest rate risk on monthly basis separately for all major currencies.

In measuring and assessing interest rate risk the Bank applies the following techniques:

- Gap analysis of interest rate risk,
- Scenario analysis,
- Stress testing,
- Analysis of embedded options.

The Bank manages the exposure to interest rate risk by applying the following techniques, which are executed on open interest rate positions recognized in the gap analysis:

- The natural hedge – is achieved by adjusting dates and re-pricing tenor of new products, which should influence decrease of an open gap in specific time bucket,
- Hedging an open interest rate position with OTC derivatives such as: interest rate swaps and options on interest rates.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2017						
Total financial assets	85,831,775	29,734,635	4,816,283	32,502,360	5,499,944	158,413,095
Total financial liabilities	34,986,988	23,969,667	15,390,581	32,773,454	51,292,405	158,413,095
Net interest sensitivity gap at 31 December 2017	**50,844,787**	**5,764,968**	**(10,574,298)**	**(271,094)**	**(45,764,363)**	**-**

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2016						
Total financial assets	111,416,390	12,424,874	5,387,700	15,846,221	5,557,506	150,632,691
Total financial liabilities	43,430,681	15,608,231	12,405,901	29,775,453	49,412,425	150,632,691
Net interest sensitivity gap at 31 December 2016	**67,985,709**	**(3,183,357)**	**(7,018,201)**	**(13,929,232)**	**(43,854,919)**	**-**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

For purpose of measurement of interest rate risk, Bank is using sensitivity analysis by applying duration-based sensitivity weights, followed with stress tests incorporating various changes in interest rate variables. The Bank is managing interest rate risk through set of interest rate exposure limits.

5.2.3. Sensitivity analysis

The management of interest rate risk and currency risk against gap limits is supplemented by monitoring the sensitivity of the Bank's income statements to various interest rate and foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in interest rates and FX rate on the net interest income for one year.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates and FX rates (assuming no asymmetrical movements in yield curves and constant balance sheet position) is as follows:

	Sensitivity of income statement	
Interest rate sensitivity	**2017**	**2016**
Increase in basis points		
+100 bps parallel shift	547,869	529,452
Foreign exchange sensitivity		
10% depreciation of RSD	110,623	10,657

5.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they come due, which can have a negative result on the Bank's financial results and equity. Liquidity risk is imminent in the banking business which arises from the nature of the basic activity of the Bank and maturity transformation necessary performed by the Bank.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity management of the Bank represents a continuous process of perceiving liquidity needs and maintaining a satisfactory liquidity level in a variety of business scenarios, as well as contingency planning. In order to implement these activities most attention is directed to analyse stability and level of deposits concentration and other sources of funding of the Bank that include:

- customer's deposits with different maturities,
- deposits from the money market and available lines with financial institutions,
- available lines form the majority shareholder,
- share capital.

Sources of liquidity are regularly reviewed so as to maintain a wide diversification by currency, geography, provider, product and term.

Diversity and stability of core deposit base involves an analysis allowing the Bank to more effectively controls and measures deposit based liquidity and more accurately measures liquidity risk by defining deposit inputs.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Liquidity risk measurement includes assessment of the risk under normal market conditions and under stress scenarios. Scenarios, which are defined based on historical data and case studies, should allow the bank to evaluate the potential adverse impact these factors can have on its liquidity position. Liquidity risk is monitored through set of short term limits. Following NBS methodology, the Bank had defined minimum level of liquidity expressed as short term liquidity ratio. For internal methodology purposes, limit framework includes ratios as limit definition of acceptable levels of short term liquidity mismatches.

Non – derivative cash flow

The amounts disclosed in the table below are the contractual undiscounted cash flows for liabilities and discounted cash flows for assets for the years 2017 and 2016.

Balance sheet and off-balance sheet items

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2017						
Due to banks, central bank and other financial institutions	211,774	-	6,681,283	2,305,374	35,232	9,233,663
Due to customers	31,284,884	7,895,443	22,116,312	18,960,118	16,525,413	96,782,170
Other liabilities	849,943	-	-	-	-	849,943
Loan commitments	-	-	7,559,382	9,872,279	342,785	17,774,446
Guarantees and acceptances			1,779,010	2,366,131	4,730,721	8,875,862
Other irrevocable commitments	-	-	1,095,896	-	-	1,095,896
Operating lease	-	-	66,785	-	-	66,785
Capital commitments	-	-	124,091	-	-	124,091
Total liabilities (contractual maturity dates)	**32,346,601**	**7,895,443**	**38,522,759**	**33,503,902**	**21,634,151**	**133,791,256**
Assets held for managing liquidity risk (contractual maturity dates)	**29,575,255**	**9,673,783**	**30,035,256**	**62,953,230**	**20,647,529**	**152,885,053**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2016						
Due to banks, central bank and other financial institutions	7,513,907	-	-	-	-	7,513,907
Due to customers	18,090,423	6,408,976	18,581,733	51,016,910	166,765	94,264,807
Other liabilities	623,225	-	-	-	-	623,225
Loan commitments	-	-	4,918,546	7,860,840	793,150	13,572,536
Guarantees and acceptances			2,131,953	2,509,836	4,830,202	9,471,991
Other irrevocable commitments	-	-	917,527	-	-	917,527
Operating lease	-	-	71,810	-	-	71,810
Capital commitments	-	-	36,803	-	-	36,803
Total liabilities (contractual maturity dates)	**26,227,555**	**6,408,976**	**26,658,372**	**61,387,586**	**5,790,117**	**126,472,606**
Assets held for managing liquidity risk (contractual maturity dates)	**50,588,054**	**4,012,287**	**20,355,730**	**22,702,986**	**52,973,634**	**150,632,691**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

5. Risk management policies (continued)

Derivative cash flow

The Bank's derivatives that are be settled on gross basis include foreign exchange swaps over-the-counter (OTC). As at 31 December 2017 and as at December 2016 the Bank did not have derivatives that are be settled on gross basis.

5.4. Operational risk

Operational risk is the risk of possible negative effects on the financial result and capital of the bank caused by human error, inadequate internal procedures and processes, inadequate management of the information management of the information system and other systems in the bank, as well as by unforeseeable external events and includes legal risk. Legal risk is the risk of adverse effects on the bank's financial result and capital arising from court or out-of-court proceedings relating to the bank's operation (contracts and torts, labour relations, etc.).

Operational risk processes consist of risk identification, exposure assessment (including measurement and valuation), control management and risk mitigation, operational risk reporting and performance improvement applying following operational risk methods: Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRI), Operational Risk Events Management, Operational Risk Reporting, Operational Risk Capital Charge Calculation and Allocation and Operational Risk Stress Testing.

The Bank includes in its risk management system all risks that arise from outsourcing activities and from launching of new products and services.

5.5. Capital management

The Bank actively manages capital base to cover risk inherent to the business. The Bank's objectives, when managing capital, which is a broader concept than "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Serbia
- To provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern
- To maintain a strong capital base to support the development of its business.

Capital adequacy, as well as the use of the Bank's capital is monitored on a monthly basis by the Bank's management.

As of 30 June 2017 a new Decision on Capital Adequacy, prescribed by the National Bank of Serbia (Official Gazette of Republic of Serbia'', no. 103/2016), which introduced Basel III standards and imposed new capital limits, entered into force.

The National Bank of Serbia has defined the following capital limits:

- The minimum amount of the capital of EUR 10 million
- Capital adequacy ratio of 8%
- Tier I CAD – minimum prescribed 6%
- Core Tier I CAD – minimum prescribed 4.5 %

Additional capital buffers are:

- Capital conservation buffer – 2.5% of total RWA;
- Countercyclical capital buffer – Rates of this buffer are determined quarterly by NBS for exposures in Serbia they are 0%;

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

- System risk buffer - The systemic risk buffer rate is equal to 3% of total foreign currency and foreign currency-indexed placements of a bank approved to corporates and households in the Republic of Serbia. All banks whose share of foreign currency and foreign currency-indexed placements approved to corporates and households in the Republic of Serbia in total placements of that bank approved to corporates and households in the Republic of Serbia exceeds 10% are obliged to maintain the systemic risk buffer.

The Bank's total capital comprises of tier 1 and tier 2 capital with corresponding deductible items.

Tier 1 capital: The share capital is the basic share capital and additional share capital. Basic Bank's share capital is the sum of share capital from ordinary shares, corresponding share premium, and reserves from profit and other reserves Tier 1 deductible items comprise intangible assets, deferred tax assets that are dependent on future profitability other than those arising from temporary differences, net of related deferred tax liabilities, and regulatory adjustments i.e. required reserve for estimated losses as prescribed by relevant NBS regulations.

Tier 2 capital: share capital from preference shares, share premium from preference shares, and acquired own preference shares as Tier 2 capital deductible items.

The risk weighted balance and off-balance assets are determined in accordance with the prescribed risk weights for all types of assets. When calculating the capital adequacy ratio, and in accordance with the regulations of the National Bank of Serbia, the overall credit risk-weighted balance and off-balance assets are increased for the calculated foreign currency, price risk and operational risk capital requirements divided by 8%.

The table below summarizes the structure of the Bank's capital as at 31 December 2017 and 31 December 2016, as well as the capital adequacy ratio:

	31 December 2017	31 December 2016
Shareholders' equity	25,422,400	25,422,400
Share premium	6,051,999	6,051,999
Retained earnings	9,558,335	9,558,335
Intangible assets	(1,944,891)	(1,846,161)
CET 1 deductible items	(5,078,960)	(21,847,524)
CET 1	**34,008,884**	**17,339,049**
TIER I capital	**34,008,884**	**17,339,049**
Preference shares	4,800	4,800
Revaluation reserves	-	7,360
TIER II capital	**4,800**	**12,160**
Tier II deductible items	(500)	(10,239)
Total regulatory capital	**34,013,184**	**17,340,970**
Risk weighted assets		
Credit and counterparty risk	98,120,258	81,414,458
Market risk	1,729,150	637,695
Operational risk	16,833,508	11,490,285
Total risk weighted assets	**116,682,915**	**93,542,438**
Capital adequacy	**29.15%**	**18.54%**

In accordance with the NBS Decision on the accounting write-off of balance sheet assets, from September 30, 2017, the Bank performed writte-off of receivables that resulted in a significant decline in the NPL ratio. This enabled decrease in required reserve for estimated losses, in accordance with the Classification Decision, which consequently led to an increase in the regulatory capital level, an increase in RWA and capital adequacy.

5. Risk management policies (continued)

5.6. Fair value of financial assets and liabilities

Fair value presented in financial statements is the amount for which an asset may be exchanged, or a liability settled, between informed, willing parties in an arm's length transaction.

Fair value is calculated using market information available as at the reporting date as well as the individual assessment methods of the Bank.

Fair value of a financial instrument presented at nominal value is approximately equal to its bookkeeping value. This includes cash as well as liabilities and receivables without defined maturity or fixed interest rate. For other liabilities and receivables the expected future cash flow is discounted up to their present value by means of current interest rate. Bearing in mind that the variable interest rates are contractual for the majority of Bank assets and liabilities, changes in the current interest rates lead to changes in the agreed interest rates.

Quoted market prices are used for trading securities. Fair value of other securities is calculated as net present value of the future expected cash flows.

Fair value of irrevocable loan obligations and potential obligations is the same as their bookeeping values.

Assessment of financial instruments

Bank measures fair value by means of the following fair value hierarchy reflecting the importance of the inputs used in measurement.

Level 1: quoted market prices (uncorrected) in active markets for identical instrument.

Level 2: Assessment techniques based on the observable inputs that are not the quoted prices from the level 1, whether directly (as prices) or indirectly (derived from prices). This category includes instruments valued through their use: quoted prices in active markets for similar instruments; stated prices for same or similar instruments in the markets considered as less active; or other assessment techniques in which all important inputs are directly or indirectly observable from the market data.

Level 3: Assessment techniques used for non-observable inputs. This category includes all instruments relative to which the valuation techniques include inputs not based on observable data and non-observable inputs that have a significant effect on the valuation of the instruments. This category includes instruments valued on the basis of quoted prices of similar instruments with significant non observable adjustments or assumptions necessary to maintain the difference between the instruments.

Fair value of financial assets and liabilities traded in active markets is based on quoted market prices or prices quoted by dealers. For all other financial instruments the Bank determines fair value by means of assessment techniques.

Assessment techniques include net present value and discounted cash flow models, comparisons with similar instruments for which there is an observable market price and other assessment models.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Assumptions and inputs used in assessment techniques include risk free and benchmark interest rates, loan margins and other premiums used in assessment of discount rate, bond and share prices, foreign currency exchange rates, capital and capital indexed prices and expected oscillations of the prices and correlations. The aim of assessment techiques is to determine the fair value which reflects the price of a financial instrument as at the reporting date that would be defined by market participants in free transactions carried out at an arm's length.

The Bank uses widely accepted assessment models in determining the fair value of common and simpler financial instruments such as interest rates and currency swaps which make use only of observable market data and require little judgement and assessment by the management. Quoted prices and model inputs are usually available in the market for quoted debt and proprietary securities, trading derivatives and simple derivaties such as interest rate swaps.

The availability of the observable market prices and model inputs decreases the need for assessment by management and reduces the uncertainty arising from determining the fair value. The availability of the observable market data and inputs varies based on the product and market and is prone to change due to particular occurrences and general condition of the future markets.

Table below analyses financial instruments measured at fair value at the end of the reporting period according to the fair value hierarchy within which the fair value measurement takes place:

Financial assets at fair value	**31.12.2017 Book value**	**31.12.2017 Fair value**
Financial assets at fair value through profit and loss	322,759	322,759
Financial assets available for sale (Note 22)	13,048,315	13,048,315
Total	**13,371,074**	**13,371,074**

Financial assets at fair value	**31.12.2016 Book value**	**31.12.2016 Fair value**
Financial assets at fair value through profit and loss	26,712	26,712
Financial assets available for sale (Note 22)	15,686,119	15,686,119
Total	**15,712,831**	**15,712,831**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Equities (Note 21)	418	-	-	418
Treasury bonds	-	311,293	-	311,293
Derivative assets (Note 21)	-	11,048	-	11,048
Financial assets available for sale				
Equities (Note 22)	21,812	-	-	21,812
Treasury bonds (Note 22)		13,026,503		13,026,503
Total assets	**22,230**	**13,348,844**	**-**	**13,371,074**
Derivative liabilities (Note 30)	-	13,222	-	13,222
				-
Total liabilities	-	13,222	-	13,222

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Equities (Note 21)	559	-	-	559
Treasury bonds	-	-	-	-
Derivative assets (Note 21)	-	26,153	-	26,153
Financial assets available for sale				
Equities (Note 22)	17,612	-	-	17,612
Treasury bonds (Note 22)		15,668,507		15,668,507
Total assets	**18,171**	**15,694,660**	**-**	**15,712,831**
Derivative liabilities (Note 30)	-	31,335	-	31,335
				-
Total liabilities	-	31,335	-	31,335

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

The following table presents the fair value of financial instruments not measured at fair value and analyses them according to the fair value hierarchy within which the fair value measurement takes place:

	31.12.2017		31.12.2016	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial (monetary) assets				
Cash and balances with Central bank	18,005,519	18,005,519	21,714,061	21,714,061
Assets held to maturity	-	-	-	-
Loans and receivables from banks and other financial organizations	14,303,432	14,303,432	12,245,083	12,245,083
Loans and receivables from customers	106,134,695	107,926,257	94,819,179	99,779,447
Other assets (financial part)	477,605	477,605	76,254	76,254
Total	**138,921,251**	**140,712,813**	**128,854,577**	**133,814,845**
Financial (monetary) liabilities				
Deposits and other liabilities towards banks and other financial organizations	9,225,583	9,225,583	7,033,192	7,033,192
Deposits and other liabilities towards customers	96,617,011	96,617,011	93,532,515	93,532,515
Other liabilities (suppliers)	142,121	142,121	181,508	181,508
Total	**105,984,715**	**105,984,715**	**100,747,215**	**100,747,215**

		Fair value		
31.12.2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and receivables from clients	-	107,926,257	-	107,926,257
Loans and receivables from banks and other financial organizations	-	14,303,432	-	14,303,432
Total	**-**	**122,229,689**	**-**	**122,229,689**
Liabilities				
Deposits and other liabilities towards banks and other financial organizations	-	9,225,583	-	9,225,583
Deposits and other liabilities towards clients	-	96,617,011		96,617,011
Total	**-**	**105,842,594**	**-**	**105,842,594**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

		Fair value		
31.12.2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and receivables from clients	-	99,779,447	-	99,779,447
Loans and receivables from banks	-	12,245,083	-	12,245,083
Total	**-**	**112,024,530**	**-**	**112,024,530**
Liabilities				
Deposits and other liabilities towards banks	-	7,033,192	-	7,033,192
Deposits and other liabilities towards clients	-	93,532,515		93,532,515
Total	**-**	**100,565,707**	**-**	**100,565,707**

Where possible, fair value of borrowings and advances is based on the observable market transactions. If observable market transactions are not available, fair value is assessed by means of assessment models such as cash flow discount techniques. Assessment technique inputs include the expected loan losses over the course of loan duration, interest rates, advances, and source data or secondary market data. For collateral dependant reduced (impaired) loans, fair value is measured based on the value of the attending collateral. Model inputs may include data by third party brokers based on the OTC trading activity, and information obtained from other market participants which include observable primary and secondary transactions.

In order to improve the accuracy of retail loans and smaller commercial loans assessment, homogenous loans are grouped into portfolios according to similar characteristics such as origin, LTV ratios, quality of collateral, type of product and debtor, advances and non-performance, and standard probability.

Fair value of bank and client deposits is determined by cash flows discount technique by applying rates offered for deposits of similar maturity and conditions. Fair value of payable *a vista* deposits is the payment amount as at the reporting date.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Table below presents Bank classification for each class of financial assets and liabilities and their fair value as at 31 December 2017:

	Fin. assets at fair value through P&L	**Held to matu -rity**	**Loans and receiva-bles**	**Available for sale**	**Amortized cost**	**Total book value**	**Fair value**
Cash and assets held at NBS	-	-	18,005,519	-	-	18,005,519	18,005,519
Assets held to maturity	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	13,048,315	-	13,048,315	13,048,315
Financial assets at fair value through profit and loss	322,759	-	-	-	-	322,759	322,759
Loans and receivables from banks and other financial organizations	-	-	14,303,432	-	-	14,303,432	14,303,432
Loans and receivables from clients	-	-	106,134,695	-	-	106,134,695	107,926,257
Other assets	-	-	-	-	1,026,652	1,026,652	1,026,652
Total assets	**322,759**	**-**	**138,443,646**	**13,048,315**	**1,026,652**	**152,841,372**	**154,632,934**
Financial liabilities at fair value through profit and loss	13,222	-	-	-		13,222	13,222
Deposits and other liabilities towards banks and other financial organizations	-	-	-	-	9,225,583	9,225,583	9,225,583
Deposits and other liabilities towards clients	-	-	-	-	96,617,011	96,617,011	96,617,011
Other liabilities	-	-	-	-	849,943	849,943	849,943
Total liabilities	**13,222**	**-**	**-**	**-**	**106,692,537**	**106,705,759**	**106,705,759**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Table below presents Bank classification for each class of financial assets and liabilities and their fair value as at 31 December 2016:

	Fin. assets at fair value through P&L	Held to matu -rity	Loans and receiva-bles	Available for sale	Amortized cost	Total book value	Fair value
Cash and assets held at NBS	-	-	21,714,061	-	-	21,714,061	21,714,061
Assets held to maturity	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	15,686,119	-	15,686,119	15,686,119
Financial assets at fair value through profit and loss	26,712	-	-	-	-	26,712	26,712
Loans and receivables from banks and other financial organizations	-	-	12,245,083	-	-	12,245,083	12,245,083
Loans and receivables from clients	-	-	94,819,179	-	-	94,819,179	99,779,447
Other assets	-	-	-	-	431,756	431,756	431,756
Total assets	**26,712**	**-**	**128,778,323**	**15,686,119**	**431,756**	**144,922,910**	**149,883,178**
Financial liabilities at fair value through profit and loss	31,335	-	-	-		31,335	31,335
Deposits and other liabilities towards banks and other financial organizations	-	-	-	-	7,033,192	7,033,192	7,033,192
Deposits and other liabilities towards clients	-	-	-	-	93,532,515	93,532,515	93,532,515
Other liabilities	-	-	-	-	623,225	623,225	623,225
Total liabilities	**31,335**	**-**	**-**	**-**	**101,188,932**	**101,220,267**	**101,220,267**

Methodologies and assumptions used in determining fair value of those financial instruments not yet recorded at fair value in the financial statements are described below.

Assets whose fair value approximates their bookkeeping value

For financial assets and liabilities that are liquid or have short term maturity (less than one year), the assumption is that their bookkeeping value approximates their fair value. This assumption is also applied to a vista deposits, non-term savings accounts, and financial instruments with variable rate.

All amounts are expressed in 000 RSD unless stated otherwise

6. Interest income and expense

	2017	2016
Interest income		
Interest income from dinar assets		
Loans	6,276,899	6,212,181
Deposits in banks	139,108	142,871
Securities	561,218	590,209
Other placements	97,569	56,478
Interest income from foreign currency assets		
Loans	108,213	160,238
Deposits in banks	86,177	58,266
Securities	28,702	105,042
Other placements	105,208	147,187
	7,403,094	**7,472,472**
Interest expense		
Interest expense from dinar liabilities		
Borrowings	-	-
Deposits in banks	(372,724)	(253,757)
Other liabilities	-	(1)
Interest expense from foreign currency liabilities		
Borrowings	(48,442)	(78,864)
Deposits in banks	(348,740)	(628,522)
Other liabilities	(61,541)	(72,640)
	(831,447)	**(1,033,784)**
Net interest income	**6,571,647**	**6,438,688**

7. Fee and commission income and expense

	2017	2016
Fees and commissions income		
Fees for banking services	2,208,977	2,041,943
Commissions from issued guarantees and other sureties	94,516	100,029
Other fees and commissions	394,604	239,576
	2,698,097	**2,381,548**
Fees and commissions expense		
Fees for domestic payment transactions	(32,674)	(19,421)
Fees for payment transactions abroad	(40,338)	(39,431)
Other fees and commissions	(474,821)	(338,684)
	(547,833)	**(397,536)**
Net fees and commissions income	**2,150,264**	**1,984,012**

Other fees and commission income for the year ended 31 December 2017 in the amount of RSD 394,604 thousand mainly comprise of the following items: insurance fees and commissions in the amount of RSD 144,279 thousand, fees for the conversion of foreign exchange in the amount of RSD 90,841, fees for the changes of the terms of the loan in the amount of RSD 32,810 thousand, settlement fees in the amount of RSD 37,514 thousand and other fees and commissions income in the amount of RSD 89,160 thousand.

All amounts are expressed in 000 RSD unless stated otherwise

7. Fee and commission income and expense (continued)

Other fees and commission expenses for the year ended 31 December 2017 in the amount of RSD 474,821 thousand mainly comprise of the following items: settlement fees in the amout of RSD 97,269 thousand, insurance fees RSD 66,460, credit bureau fees in the amount of RSD 61,905 thousand, broker fees in the amount of RSD 52,092 thousand and other fees and commissions expenses in the amount fo RSD 252,805 thousand.

8. Net gains(losses) from financial assets held for trading

Net gains/ (losses) from sale of securities at fair value through profit and loss are as follows:

	2017	2016
Gain from financial assets held for trading	152	10
Gains from change of value of derivatives	14,176	1,626
Losses from financial assets held for trading	(142)	-
Losses from change of value of derivatives	(11,031)	
Net gains / (losses)	**3,155**	**1,636**

9. Net loss from hedging

	2017	2016
Impairment of investments in associated companies	(14,798)	-
Impairment of investments in associated companies	**(14,798)**	**-**

As at 31 December 2017 Bank performed impairment test of the equity participation and book impairment in the amount of RSD 14,798 thousand in associated company ERB Leasing a.d. after the company entered in process of voluntary liquidation.

10. Net gains from financial assets available for sale

	2017	2016
Gains from financial assets available for sale	3,679	-
Net gains from financial assets available for sale	**3,679**	**-**

As at 31 December 2017 Bank's gains from financial assets available for sale were related for gains on sale of State treasury bills.

11. Net foreign exchange gains

	2017	2016
Foreign exchange gains	38,836,734	151,207,561
Foreign exchange losses	(38,856,117)	(151,182,356)
Net foreign exchange rate gains	**(19,383)**	**25,205**

All amounts are expressed in 000 RSD unless stated otherwise

12. Operating and other income

	2017	2016
Release of provisions for legal cases and client damages (Note 34)	8,678	17,112
Lease of premises	3,999	3,933
Gains from sale of fixed assets and intangible investments	38,255	926
Gains from sale of other placements	2,620	-
Collected damages and lawsuits	36,456	13,899
Other income	44,478	25,814
Total	**134,486**	**61,684**

13. Net provisions and impairment losses on loans and advances

	2017	2016
Income from reversal of provisions and impairment losses		
Loans and receivables from customers (Note 24)	3,779,154	206,095
Other assets (Note 29)	2,791	821
Off balance sheet items (Note 33)	87,974	92,226
Banks	1,026	7,393
Collected written off loans and receivables	140,331	69,205
Subtotal	**4,011,276**	**375,740**
Expenses for provisions and Impairment charge		
Loans and receivables from customers (Note 24)	(4,517,848)	(1,153,896)
Other assets (Note 29)	(3,298)	(1,537)
Off balance sheet items (Note 33)	(91,617)	(2,032)
Banks	(67,724)	(78,980)
Direct write off	(30,173)	(24,410)
Subtotal	**(4,710,660)**	**(1,260,855)**
Net provisions and impairment	**(699,384)**	**(885,115)**

14. Salaries, benefits and other personnel expenses

	2017	2016
Salaries	(1,334,504)	(1,280,293)
Tax on salaries and benefits	(168,432)	(161,902)
Contributions on salaries and benefits	(350,326)	(332,216)
Other personnel expenses	(28,559)	(29,741)
Expenses for temporary and occasional work	-	-
Loss on retirement benefits	(27,111)	(14,501)
Total	**(1,908,932)**	**(1,818,653)**

All amounts are expressed in 000 RSD unless stated otherwise

15. Depreciation and amortization expenses

	2017	2016
Intangible assets (Note 26)	203,694	233,732
Property, plant and equipment (Note 27)	190,678	182,269
Total	**394,372**	**416,001**

16. Operating and other expenses

	2017	2016
Administrative expenses	1,513,894	1,460,656
Non-material expenses (excluding taxes and contributions)	1,068,232	1,128,319
Contributions	314,868	302,229
Materials	143,652	149,257
Taxes	55,881	54,191
Disposals and write-offs of intangible assets and PPE	14,578	274
Legal expenses and taxes	57,215	40,507
Other expenses	88,581	87,168
Provisions for legal cases (Note 33)	51,145	22,069
Total	**3,308,046**	**3,244,670**

Detailed breakdown of administrative expenses is presented in the table below:

	2017	2016
Transportation services	72,763	73,877
Communication services	127,191	123,325
Telephone	21,902	22,626
Software maintenance	421,415	422,654
Hardware maintenance	55,937	61,093
Maintenance of fixed assets	35,153	37,492
ATM maintenance	15,347	15,055
Marketing and advertising	270,433	219,239
Donations	14,975	14,494
Rent	377,772	380,336
Other services	101,006	90,465
Total	**1,513,894**	**1,460,656**

As of 31 December 2017, non–material expenses in the amount of RSD 1,068,232 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 485,140 thousand, expenses for legal services in the amount of RSD 193,486 thousand, employee transportation expenses in the amount of RSD 44,395 thousand, cleaning services in the amount of RSD 23,198 thousand, safeguarding expenses in the amount of RSD 35,963 thousand, expenses for printing statements for cards in the amount of RSD 37,044 thousand, services of youth organization in the amount of RSD 8,572, collection services in the amount of RSD 24,940 thousand, information system services in the amount of RSD 25,783 thousand, intellectual services in the amount of RSD 29,148 thousand and other expense.

All amounts are expressed in 000 RSD unless stated otherwise

16. Operating and other expenses (continued)

As of 31 December 2016, non–material expenses in the amount of RSD 1,128,319 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 472,871 thousand, expenses for legal services in the amount of RSD 202,675 thousand, employee transportation expenses in the amount of RSD 44,268 thousand, cleaning services in the amount of RSD 25,297 thousand, safeguarding expenses in the amount of RSD 33,406 thousand, expenses for printing statements for cards in the amount of RSD 33,580 thousand, services of youth organization in the amount of RSD 6,590, collection services in the amount of RSD 28,065 thousand, information system services in the amount of RSD 29,456 thousand, intellectual services in the amount of RSD 34,165 thousand and other expense.

17. Income tax

Income tax:

	2017	2016
Current income tax	(135,169)	-
Deferred tax	(201,392)	(85,461)
Total	**(336,561)**	**(85,461)**

The tax on the Bank's profit or loss before tax differs from the theoretical amount that would arise by using prescribed tax rate:

	2017	2016
Profit before tax	2,518,316	2,146,786
Tax calculated at the rate of 15%	(377,747)	(322,018)
Tax effect of non-deductible expenses and non-taxable revenues	94,038	17,623
Tax effect from the current year result	**(283,709)**	**(304,395)**
Tax effect of temporary differences	(4,510)	22,567
Release of previously recongized tax credits	(67,946)	(87,879)
Tax effect of utilized tax losses carried forward and tax credits	148,540	304,395
(Release of deferred tax assets on tax losses carried forward	(128,936)	(20,149)
Income tax	**(336,561)**	**(85,461)**

As at 31 December 2017, the Bank has taxable profit in the amount of RSD 1,856,987 thousand (2016: taxable profit of RSD 2,029,301) and taxable capital gain in the amount of RSD 34,407 thousand. As at 31 December 2017, the Bank has utilized all of the previous year losses in the amount of RSD 859,574 thousand. The Bank has realized all deferred tax assets arising from losses carried forward in the amount of RSD 128,936 thousand. The Bank has also utilized all of tax credit for investments in fixed assets from year 2013 in the amount of RSD 19,604 thousand. Current income tax liability for year 2017 in the amount of RSD 135,169 thousand will be offset by the Bank’s overpayments of income tax from previous years in the amount of RSD 131,796 thousand, the remaining amount of liability of RSD 3,373 thousands will be paid when it becomes due.

All amounts are expressed in 000 RSD unless stated otherwise

18. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.
As at 31 December 2017, the Bank has 48 preference shares issued. No preference dividends are declared, therefore there is no effect on basic earnings per share.

	2017	2016
Profit attributable to equity holders of the Company	2,181,755,010	2,061,324,967
Weighted average number of ordinary shares in issue	254,224	254,224
Basic earnings per share (expressed in RSD per share)	**8,582**	**8,108**

19. Cash and balances with Central Bank

	31 December 2017	31 December 2016
In dinars		
Current account	6,668,347	8,424,147
Cash in hand	1,097,633	1,007,613
Revocable loans and deposits	-	-
In foreign currency		
Cash in hand	1,382,771	2,483,496
Other cash and cash equivalents	2,975	1,549
Required reserve at Central Bank	8,853,793	9,797,256
Total	**18,005,519**	**21,714,061**

Mandatory reserves in local currency and in foreign currency are calculated by Bank in accordance with the Decision of the National bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014 and 4/2015,78/2015 and 102/2015), and "Guidelines for Implementing the Decision on mandatory reserves with the National Bank of Serbia" (Official Gazette of Republic of Serbia no. 8/2011, 43/2011, 57/2012, 65/2013, 118/2013, 127/2014, 141/2014 and 114/2017).

As at 31 December 2017 calculated mandatory reserves in local currency amounted to RSD 6,496,464 thousand (in 2016: RSD 6,465,308 thousand). Mandatory reserves in local currency are included in the balance of the current account, therefore not presented separately. The Bank can use mandatory reserves to maintain its liquidity.

As at 31 December 2017 calculated mandatory reserves in foreign currency amounted to EUR 74,410 thousands (in December 2016: EUR 77,337 thousands). Pursuant to NBS Decision on mandatory reserves the Bank is obligated to set aside funds for mandatory reserves in foreign currency on the separate account with NBS.

From January 2016, foreign currency mandatory reserves on deposits with maturity up to 2 years stand at 20%. The reserves should be maintained as follows: 38% of the reserve should be maintained in dinars and 62% of reserve should be maintained in euros. Local currency mandatory reserves on deposits with maturity up to 2 years stand at 5%.

Foreign currency mandatory reserves on deposits with maturity over 2 years stand at 13%. This reserve should be maintained as follows: 30% of the reserve should be maintained in dinars and 70% of the reserve should be maintained in euros. Local currency mandatory reserves on deposits with maturity over 2 years do not require any reserves.

All amounts are expressed in 000 RSD unless stated otherwise

19. Cash and balances with Central Bank (continued)

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

Cash and balances with the Central bank (Note 19)	**31 December 2017**	**31 December 2016**
In dinars		
Current account	6,668,347	8,424,146
Cash in hand	1,097,633	1,007,613
In foreign currency		
Cash in hand	1,382,771	2,483,496
Other cash and cash equivalents	2,975	1,549
Loans, advances and deposits to Financial Institutions (Note 23)		
Foreign currency account	1,166,974	3,322,373
Total cash flow	**10,318,700**	**15,239,177**

20. Pledged financial assets

As at 31 December 2017 the Bank has pledged financial assets in the amount of RSD 3,110,300 thousand relate to the pledged RS Ministry of Finance bills in dinars that was given as collateral for deposits taken from companies in bankruptcy. As at 31 December 2016 the Bank has pledged financial assets in the amount of RSD 692,590 thousand.

21. Financial assets at fair value through profit and loss held for trading

	31 December 2017	**31 December 2016**
In dinars		
Shares	418	559
Bonds	311,293	-
In foreign currency		
Increase in fair value of derivatives	11,048	26,153
Total	**322,759**	**26,712**

Derivative assets and liabilities:

	31 December 2017			**31 December 2016**		
		Fair values			Fair values	
	Contract/notional amount	Assets	Liabilities	Contract/notional amount	Assets	Liabilities
Derivatives held for trading						
Currency swaps	-	-	-	-	-	-
Interest rate swaps	14,451,324	11,048	13,222	23,872,241	26,153	31,335
Total	**14,451,324**	**11,048**	**13,222**	**23,872,241**	**26,153**	**31,335**

All amounts are expressed in 000 RSD unless stated otherwise

22. Financial assets available for sale

	31 December 2017	31 December 2016
In dinars		
RS Ministry of Finance bills	12,131,639	12,117,793
In foreign currency		
RS Ministry of Finance bills	894,864	3,550,714
Shares	21,812	17,612
Available for sale (Including pledged assets)	**13,048,315**	**15,686,119**
Pledged financial assets (Note 20)	(3,110,300)	(692,590)
Total	**9,938,015**	**14,993,529**

All amounts are expressed in 000 RSD unless stated otherwise

23. Loans and deposits to banks and other financial institutions

	31 December 2017					31 December 2016
	Domestic banks	**Foreign banks**	**Financial institutions**	**National Bank of Serbia**	**Total**	**Total**
Repo in dinars	-	-	-	4,501,606	4,501,606	-
Receivables for calculated interest	50	-	-	-	50	-
Deposits in dinars						
Other deposits	400,000	-	-	-	400,000	940,000
Deposits in foreign currency	-					
Foreign banks accounts	-	1,166,912	62	-	1,166,974	3,322,373
Other deposits	892,040	6,927,794	-	-	7,819,834	7,143,609
Other special purpose deposits	-	-	436,022	-	436,022	869,897
Placements in dinars	-					
Investment loans	-	-	-	-	-	-
Other loans	-	-	99,284	-	99,284	683
Accrued interest receivables	90	-	230	-	320	157
Placements in foreign currency	-					
Other placements	-	-	6,185	-	6,185	28,960
Accrued interest receivables	198	928	16,113	-	17,239	20,207
Loans and placements, gross	**1,292,378**	**8,095,634**	**557,896**	**4,501,606**	**14,447,514**	**12,325,886**
Less: Provisions	(605)	(143,383)	(94)	-	(144,082)	(80,803)
Loans and placements, net	**1,291,773**	**7,952,251**	**557,802**	**4,501,606**	**14,303,432**	**12,245,083**

All amounts are expressed in 000 RSD unless stated otherwise

24. Loans and receivables from customers

	31 December 2017						31 December 2016
	Companies	**Entrepreneurs**	**Individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Deposits in dinars							
Other special purpose deposits	-	-	31,500	-	-	31,500	25,000
Deposits in foreign currency							
Other special purpose deposits	-	-	-	-	-	-	-
Placements in dinars							
Interest and fee receivables	262,979	220,767	220,343	23	98,504	802,616	1,585,760
Investment loans	3,227,293	388,096	-	-	15,681	3,631,070	1,515,678
Overdrafts	266,842	61,204	814,261	-	723	1,143,030	1,253,020
Working capital loans	31,955,763	2,638,042	-	-	4,260	34,598,065	41,603,055
Mortgage loans	-	-	18,502,883	56,546	1	18,559,430	21,528,497
Other loans	10,032,644	760,495	5,028,075	-	-	15,821,214	11,407,192
Cash loans	-	-	32,211,893	-	-	32,211,893	26,171,509
Consumer loans	-	-	64,986	-	-	64,986	174,202
Other placements	1,263,563	2,165	4,085	-	4,466	1,274,279	1,726,008
Accrued interest receivables	71,644	10,677	228,680	82	17,910	328,994	392,594
Placements in foreign currency							
Interest and fee receivables	19	-	-	-	-	19	25,823
Import loans	4,496,468	-	-	-	-	4,496,468	3,766,663
Other loans	139,052	-	-	-	-	139,052	49,111
Other placements	1,695,991	-	-	17,695	-	1,713,686	4,014,126
Accrued interest receivables	3,279	-	-	-	-	3,279	2,571
Income deferral using effective interest rate	(83,343)	-	(72,244)	-	-	(155,588)	(176,783)
Loans and placements, gross	**53,332,194**	**4,081,446**	**57,034,462**	**74,346**	**141,545**	**114,663,993**	**115,064,026**
Less: Provisions	(4,827,311)	(1,392,062)	(2,280,735)	(3,014)	(26,176)	(8,529,298)	(20,244,847)
Loans and placements, net	**48,504,883**	**2,689,384**	**54,753,727**	**71,332**	**115,369**	**106,134,695**	**94,819,179**

All amounts are expressed in 000 RSD unless stated otherwise

24. Loans and receivables from customers (continued)

Interest rates for indexed loans to legal entities ranged between 1.7% and 4.1% per annum and for RSD loans between 3.3% and 5.6% per annum. The Bank approves indexed loans to retail customers, where the interest rate ranges from 2.1%-16.5% per annum and RSD loans with interest rates between 4.3%-34.5%

Movements in impairment allowance for loans and receivables from customers are presented below:

	Corporate	Consumer	Mortgage	SBB	Other placements	Interest	Total
Closing balance 2015	4,602,301	1,976,070	552,112	8,116,306	3,229,586	1,239,469	19,715,844
Impairment charge (Note 13)	370,734	228,469	182,118	172,181	162,289	38,105	1,153,896
Release (Note 13)	-	(12,858)	(18,984)	(77,204)	-	(97,048)	(206,094)
BAN 2 implementation	-	-	(31,267)	-	-	-	(31,267)
Net foreign exchange	55,821	7,644	12,652	127,425	50,528	21,324	275,394
Write off	(609,501)	(19,032)	-	(33,141)	-	(1,252)	(662,926)
Closing balance 2016	**4,419,355**	**2,180,293**	**696,631**	**8,305,567**	**3,442,403**	**1,200,598**	**20,244,847**
Impairment charge (Note 13)	1,533,280	739,399	187,333	546,281	1,318,160	193,395	4,517,848
Release (Note 13)	(1,459,579)	(425,033)	(168,854)	(642,331)	(846,520)	(216,897)	(3,759,214)
BAN 2 implementation	-	-	(19,940)	-	-	-	(19,940)
Net foreign exchange	(153,046)	(25,332)	(62,754)	(429,167)	(164,661)	(40,815)	(875,775)
Write off	(2,625,969)	(784,306)	(148,014)	(5,087,432)	(2,245,565)	(687,182)	(11,578,468)
Closing balance 2017	**1,714,041**	**1,685,021**	**484,402**	**2,692,918**	**1,503,817**	**449,099**	**8,529,298**

25. Investments in associates

	31 December 2017	31 December 2016
Equity shares	43,681	20,479
	43,681	**20,479**

As at 31 December 2017 the Bank is holding 49.49% of the voting rights of the ERB Leasing a.d. Beograd (31 December 2016: 25.56%). In May 2017 Bank participated in recapitalization of ERB Leasing a.d. in the amount of RSD 38,000 thousand (380 new shares were issued in the nominal value of RSD 100,00 thousand per one share). After the ERB Leasing a.d. entered in process of voluntary liquidation, Bank performed impairment of the equity participation in the amount of RSD 14,798 thousand.

All amounts are expressed in 000 RSD unless stated otherwise

26. Intangible assets

As at December 2015	Intangible assets	In course of construction and advances	Total
Cost	3,527,369	83,331	3,610,700
Accumulated amortization	(1,795,207)	-	(1,795,207)
Net book value	**1,732,162**	**83,331**	**1,815,493**
Year ended 31 December 2016			
Opening net book value	**1,732,162**	**83,331**	**1,815,493**
Additions		264,400	264,400
Disposals/write offs	-	-	-
Transfers	290,588	(290,588)	-
Amortization (Note 15)	(233,732)		(233,732)
Closing net book value	**1,789,018**	**57,143**	**1,846,161**
At 31 December 2016			
Cost	3,808,857	57,143	3,866,000
Accumulated amortization	(2,019,839)	-	(2,019,839)
Net book value	**1,789,018**	**57,143**	**1,846,161**
Year ended 31 December 2017			
Opening net book value	**1,789,018**	**57,143**	**1,846,161**
Additions	-	311,615	311,615
Transfers	250,444	(250,444)	-
Amortization (Note 15)	(203,694)		(203,694)
Closing net book value	**1,835,768**	**118,314**	**1,945,082**
At 31 December 2017			
Cost	4,059,301	109,122	4,168,423
Accumulated amortization	(2,223,533)	-	(2,223,533)
Net book value	**1,835,768**	**109,122**	**1,944,890**

Book value of intangible assets does not materially differ from fair value.

All amounts are expressed in 000 RSD unless stated otherwise

27. Property, plant and equipment

	Land and buildings	Equipment and other assets	In course of construction and advances	Total
At 31 December 2015				
Cost	4,033,480	1,599,511	13,017	5,646,008
Accumulated depreciation and impairment	(775,829)	(1,154,696)	-	(1,930,525)
Net book value	**3,257,651**	**444,815**	**13,017**	**3,715,483**
Year ended 31 December 2016				
Opening net book amount	3,257,651	444,815	13,017	3,715,483
Additions	6,169	-	114,905	121,074
Transfers	11,801	59,219	(71,020)	-
Disposal/Write off	(13)	(966)	-	(979)
Depreciation (Note 15)	(79,101)	(103,168)	-	(182,269)
Closing net book value	**3,196,507**	**399,901**	**56,903**	**3,653,311**
At 31 December 2016				
Cost	4,042,824	1,447,495	56,903	5,547,222
Accumulated depreciation and impairment	(846,317)	(1,047,594)	-	(1,893,911)
Net book value	**3,196,507**	**399,901**	**56,903**	**3,653,309**
Year ended 31 December 2017				
Opening net book amount	3,196,507	399,901	56,903	3,653,311
Additions	38,658	-	194,697	233,355
Transfers	5,565	232,168	(237,733)	-
Disposal/Write off	(99,756)	(13,080)	-	(112,836)
Depreciation (Note 15)	(78,139)	(112,539)	-	(190,678)
Closing net book value	**3,062,835**	**506,450**	**13,867**	**3,583,152**
At 31 December 2017				
Cost	3,932,475	1,563,557	13,867	5,509,899
Accumulated depreciation and impairment	(869,640)	(1,057,107)	-	(1,926,747)
Net book value	**3,062,835**	**506,450**	**13,867**	**3,583,152**

Rental expenses in the amount of RSD 377,772 thousand (2016: RSD 380,336 thousand) in relation to the rental of property are included in the operating expenses (Note 16).

As at 31 December 2017 there are no charges over the Bank's fixed assets.

All amounts are expressed in 000 RSD unless stated otherwise

28. Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December:

	2017	2016
Deferred tax assets	23,786	227,741
Deferred tax liabilities	(165,302)	(169,707)
	(141,516)	**58,034**

Deferred tax is recognized on temporary differences, losses carried forward and unused tax credits.

Movements in net deferred tax assets

	2017	2016
Opening balance of deferred tax (assets)	58,034	134,626
Changes during the year:		
Decrease/(increase) of deferred tax liabilities and (decrease)/ increase of deferred tax assets related to temporary differences	(4,510)	22,567
Deferred tax assets on losses carried forward	(128,936)	(20,149)
Deferred tax assets on tax credits	(67,946)	(87,878)
Total deferred tax (expense)/income for the year	**(201,392)**	**(85,461)**
Deferred tax on revaluation reserves	**1,298**	**9,692**
Deferred tax on actuarial losses	**544**	**(824)**
Net deferred tax assets	**(141,516)**	**58,034**

As at 31 December 2017 and 31 December 2016 the Bank has no unrecognized deferred tax assets on losses carried forward.

Deferred tax income/ (expense) relates to the following items:

	2017	2016
Depreciation	2,562	(2,787)
Long term provisions	(7,072)	25,354
Losses carried forward	(128,936)	(20,149)
Tax credits	(67,946)	(87,878)
	(201,392)	**(85,461)**

All amounts are expressed in 000 RSD unless stated otherwise

29. Other assets

	31 December 2017	31 December 2016
Prepayments and accrued income in dinars		
Accrued interest	24	127
Prepayments	278,513	241,591
Other prepayments and accrued income	460,581	65,411
Prepayments and accrued income in foreign currency		
Accrued interest	109	119
Other prepayments and accrued income	-	-
	739,227	**307,248**
Other receivables in dinars		
Employees	177	5
Advances for current assets	26,157	11,168
Advances for property, plant and equipment	118,896	39,372
For prepaid taxes and contributions	402	120
Suspense and temporary accounts	(14,355)	(14,897)
Other fee receivables	46,464	47,206
Other receivables	116,235	54,010
Other receivables in foreign currency		
Advances for current assets	921	2,318
Suspense and temporary accounts	8,574	2,382
Other fee receivables	5,003	5,200
Other receivables	115,509	119,915
	423,983	**266,799**
Inventory		
Assets received in collection of claims	12,415	12,415
Material	3,374	3,016
	15,789	**15,431**
Other assets, gross	**1,178,999**	**589,477**
Less: Impairment	(146,115)	(151,489)
Less: Provisions for repossessed collateral	(6,232)	(6,232)
Other assets, net	**1,026,652**	**431,756**

All amounts are expressed in 000 RSD unless stated otherwise

29. Other assets (continued)

Movements in impairment allowance are presented below:

	31 December 2017	31 December 2016
Opening balance	151,489	**149,139**
Impairment charge (Note 13)	3,298	1,534
Release (Note 13)	(2,791)	(821)
Net foreign exchange	(5,500)	1,863
Write off	(381)	(226)
Other	-	-
Closing balance	**146,115**	**151,489**

30. Financial liabilities at fair value through profit and loss for trading

	31 December 2017	31 December 2016
Liabilities in dinars		
Increase in fair value of derivatives	2,174	5,182
Liabilities in foreign currency		
Increase in fair value of derivatives	11,048	26,153
Total (Note 21)	**13,222**	**31,335**

31. Net Debt Reconciliation

The table below sets out an analysis of our debt and the movements in Bank's debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Borrowed funds	Own shares	Total
Net debt at 1 January 2016	**5,175,518**	**-**	**5,175,518**
Cash flows	1,832,226	-	1,832,226
Foreign exchange adjustments	107,826	-	107,826
Net debt at 31 December 2016	**7,115,570**	**-**	**7,115,570**
Cash flows	2,179,868	(500)	2,179,368
Foreign exchange adjustments	(336,521)	-	(336,521)
Net debt at 31 December 2017	**8,958,917**	**(500)**	**8,958,417**

All amounts are expressed in 000 RSD unless stated otherwise

32. Deposits and other liabilities due to banks, other financial institutions and Central Bank

	31 December 2017				31 December 2016
	Foreign banks	**Domestic banks**	**Financial institutions**	**Total**	**Total**
Transaction deposits in dinars	27,793	-	49,577	77,370	209,407
Transaction deposits in foreign currency	316	1	10,783	11,100	113,060
Other deposits and liabilities in dinars					
Special purpose deposits	210	-	-	210	210
Other deposits	-	-	190,000	190,000	175,000
Other financial liabilities	-	-	-	-	48
Interest and fees accruals in dinars	-	-	1,264	1,264	153
Other deposits and liabilities in foreign currency					
Special purpose deposits	183,020	-	96,599	279,619	192,207
Other deposits	-	-	59,303	59,303	175,706
Received loans	2,014,036	-	6,585,661	8,599,697	6,174,356
Interest and fees accruals	1,769	-	5,251	7,020	7,513
Deferred costs using effective interest rate	-	-	-	-	(14,468)
Total	**2,227,144**	**1**	**6,998,438**	**9,225,583**	**7,033,192**

All amounts are expressed in 000 RSD unless stated otherwise

33. Deposits and other liabilities due to customers

	31 December 2017							31 December 2016
	Public sector	Companies	Entrepreneurs	Private individuals	Foreign entities	Other clients	Total	Total
Transaction deposits in dinars	723	3,922,100	1,250,619	3,200,864	26,504	882,703	9,283,513	6,853,039
Transaction deposits in foreign currency	-	2,355,435	70,656	19,169,656	1,202,508	135,831	22,934,086	21,917,501
Other deposits and liabilities in dinars								
Savings deposits	-	-	-	940,641	9,316	-	949,957	1,063,996
Special purpose deposits	-	77,858	3	22,138	2,072	-	102,071	230,135
Deposits pledged as collateral	-	70,634	1,200	8,827	-	-	80,661	84,240
Other deposits	56,100	2,876,122	29,516	-	-	8,635,295	11,597,033	7,202,132
Overnight	-	-	-	-	-	-	-	-
Other financial liabilities	-	125	-	47,152	-	397	47,674	36,761
Interest, provisions and fees payable	-	186	63	49	1	-	299	240
Interest accruals	119	4,335	59	8,446	187	22,938	36,084	25,743
Deferred costs using effective interest rate	-	-	-	-	-	-	-	-
Other deposits and liabilities in foreign currency								
Savings deposits	-	-	-	42,171,751	702,465	-	42,874,216	48,352,607
Special purpose deposits	-	431,500	662	146,328	2,894,696	31,898	3,505,084	411,937
Deposits pledged as collateral	-	625,578	11,409	630,510	1,857	-	1,269,354	1,106,886
Other deposits	-	2,262,728	-	-	-	1,100,950	3,363,678	5,092,397
Received loans	386,221	-	-	-	-	-	386,221	941,214
Other financial liabilities	-	52,873	-	-	-	353	53,226	52,159
Interest, provisions and fees payable in foreign currency	-	-	-	264	-	-	264	311
Interest accruals	121	1,317	24	124,273	7,476	379	133,590	161,217
Total	**443,284**	**12,680,791**	**1,364,211**	**66,470,899**	**4,847,082**	**10,810,744**	**96,617,011**	**93,532,515**

All amounts are expressed in 000 RSD unless stated otherwise

33. Deposits and other liabilities due to customers (continued)

No interest rates calculated on demand corporate deposits in local/foreign currency during 2017. Term corporate deposits in local currency carry interest rate from 1.1% to 3.4% per annum and corporate foreign currency term deposits carry interest rate from 0.4% to 1.0% per annum.

The interest rate on the current and demand deposits of citizens range up to 0.5% per annum for EUR and up to 4.9% for RSD (stock of old products). New production of current and demand deposits is 0.0% for EUR and 2.4%RSD. Interest rate on foreign currency term deposits varied from 0.1% to 1.5% in EUR while interest rate on RSD term deposits of citizens ranged from 1.5% to 3.6% per annum.

34. Provisions

	31 December 2017	31 December 2016
Provisions for off-balance sheet exposures	223,614	229,218
Provisions for legal cases (Note 36 b)	117,706	168,963
Provisions for retirement	40,869	36,759
Provision for bonuses and other - IAS 19	29,369	11,646
Provisions for restructuring	-	-
Total	**411,558**	**446,586**

Movements in total provisions:

	Bonuses and other - IAS 19	Retirement	Legal cases	Provisions for restructu-ring	Off balance sheet	Total
Opening balance 2016	**3,700**	**36,699**	**202,534**	**-**	**313,694**	**556,627**
Provisions paid during the year	-	(1,004)	(39,407)	-	-	(40,411)
New provisions	7,946	6,554	22,069	-	2,032	38,601
Release of provisions (Note 11, 10)	-	(5,490)	(17,112)	-	- (92,226)	(114,828)
Net exchange gain/loss	-	-	879	-	5,717	6,596
Closing balance 2016	**11,646**	**36,759**	**168,963**	**-**	**229,217**	**446,586**
Provisions paid during the year	(7,814)	(1,088)	(93,777)	-	-	(102,679)
New provisions	25,537	1,574	51,145	-	91,617	169,873
Release of provisions (Note 10, 11)	-	3,624	(8,678)	-	(87,974)	(93,028)
Net exchange gain/loss	-	-	53	-	(9,246)	(9,193)
Closing balance 2017	**29,369**	**40,869**	**117,706**	**-**	**223,614**	**411,558**

All amounts are expressed in 000 RSD unless stated otherwise

34. Provisions (continued)

Principal actuarial assumptions used for retirement indemnities (expressed as weighted averages):

	31 December 2017	31 December 2016
Discount rate	5.0%	5.2%
National average salary increase	2.5%-4.5%	1.8%-4.5%
Inflation rate	3.5%	3.5%

35. Other liabilities

	31 December 2017	31 December 2016
Liabilities for salaries and benefits		
Temporary and occasional assignments	6,839	6,255
Other liabilities towards employees	3,329	15,910
	10,168	**22,165**
Other liabilities in dinars		
Operations managed on behalf of third parties	236	5,964
Advances received	11,940	2,131
Suppliers	132,681	137,364
Temporary and suspense accounts	10,210	37,235
Liabilities from profit	700	700
Other liabilities	19,960	26,786
Liabilities for interest and fees	21,996	9,888
Other obligations in foreign currency		
Advances received	49,710	45,342
Suppliers	9,439	44,144
Temporary and suspense accounts	95	560
Other liabilities	4,654	4,448
	261,621	**314,562**
Value added tax	54,698	45,920
Other taxes and contributions	8,427	9,573
	63,125	**55,493**
Accruals and deferred income in dinars		
Other accrued expenses	75,526	49,291
Deferred income from fees	17,654	16,561
Deferred interest income	6,742	6,807
Other accruals and deferred income	388,962	152,886
Accruals and deferred income in foreign currency		
Other accrued expenses	16,009	3,079
Other accruals and deferred income	10,136	2,381
	515,029	**231,005**
Total	**849,943**	**623,225**

All amounts are expressed in 000 RSD unless stated otherwise

36. Shareholder's equity

Capital of the bank comprises share capital, share premium, statutory reserves, revaluation reserves and accumulated gains and losses:

	31 December 2017	31 December 2016
Share capital and other capital		
Share capital common shares	25,422,400	25,422,400
Share capital preference shares	4,800	4,800
Share premium	6,051,999	6,051,999
Other capital	2,727	2,727
	31,481,926	**31,481,926**
Own shares	(500)	-
Statutory and other reserves	9,558,335	9,558,335
	9,557,835	**9,558,335**
Revaluation reserves		
Revaluation reserves - AFS securities	14,237	7,360
Actuarial loss on defined retirement benefits	186	3,266
	14,423	**10,626**
Accumulated gains	7,914,950	5,853,626
Accumulated losses	-	-
Current year profit	2,181,755	2,061,325
	10,096,705	**7,914,950**
Total shareholder's equity	**51,150,889**	**48,965,838**
Number of issued shares	**254,272**	**254,272**

Nominal value of the shares amounts to RSD 100,000 per share.

All amounts are expressed in 000 RSD unless stated otherwise

36. Shareholder's equity (continued)

The shareholders structure of the Bank as at 31 December 2017 is presented in the table below:

Shareholder	Ordinary shares	%	Preference shares	%	Total shares	%
Eurobank Ergasias	141,868	55.80%	17	35.42%	141,885	55.80%
Berberis Investments Limited	3,690	1.45%	-	0.00%	3,690	1.45%
ERB N.E. BV Holding Company Holland	108,666	42.74%	-	0.00%	108,666	42.74%
Agromerkantilija z. zadruga	-	0.00%	3	6.25%	3	0.00%
AKT	-	0.00%	1	2.08%	1	0.00%
Bambi banat	-	0.00%	3	6.25%	3	0.00%
Buducnost	-	0.00%	2	4.17%	2	0.00%
Dunav AD	-	0.00%	1	2.08%	1	0.00%
Eurobank a.d.	-	0.00%	5	10.42%	5	0.00%
Kopaonicanka ZP	-	0.00%	2	4.17%	2	0.00%
Saobracajniinstitut CIP	-	0.00%	3	6.25%	3	0.00%
Siemens IT solutions and service	-	0.00%	2	4.17%	2	0.00%
Stem	-	0.00%	1	2.08%	1	0.00%
TP Beogradelektro	-	0.00%	6	12.50%	6	0.00%
Trustex	-	0.00%	1	2.08%	1	0.00%
ZZ BajinaBasta	-	0.00%	1	2.08%	1	0.00%
Total	**254,224**	**100.00%**	**48**	**100.00%**	**254,272**	**100.00%**

The reconciliation of the movements in number of common and preference shares is as follows:

	Common shares	Preference shares
Closing balance 2017	**254,224**	**48**
Closing balance 2016	**254,224**	**48**

Share issues and the changes in the Eurobank's share capital structure

During 2017 the Bank did not perform any capital increase.

During 2017 Bank executed repurchase of own preference shares from the shareholder Habit Pharm in bankruptcy in total amount of RSD 500 thousand (5 shares with nominal value RSD 100 thousand per one share). The Bank plans to carry out the annulment of repurchased own preference shares during the year 2018.

Share premium

Share premium represents amounts issued over par. As at 31 December 2017 the Bank's share premium was RSD 6,051,999 thousand (31 December 2016: RSD 6,051,999).

Statutory reserves

As at 31 December 2017 statutory reserves and other reserves in total amount of RSD 9,558,335 thousand (31 December 2016: RSD 9,558,335 thousand) are formed in accordance with regulations and the Statute of the Bank.

All amounts are expressed in 000 RSD unless stated otherwise

37. Contingent liabilities and commitments

a) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	31 December 2017	31 December 2016
Not later than one year	66,785	71,810
Later than one year but no later than five years	-	-
Later than five years	-	-
	66,785	**71,810**

b) Litigations

As at 31 December 2017, the Bank has provisions for legal cases in the amount of RSD 117,706 thousand (31 December 2016: RSD 168,963 thousand). Provisions in the amount of RSD 110,796 thousand relate to litigations for the unilateral increase in interest rates that was performed in the past (31 December 2016: RSD 96,814 thousand). The Bank also has two legal claims filed against the Bank in respect of payments of frozen bonds made to unauthorized persons based on forged documents. Although, the Bank acts as an Agent of the Government of the Republic of Serbia, servicing "old foreign currency savings bonds" the Bank has made provision for claims related to the frozen bonds payments in the amount of RSD 3,584 thousand (31 December 2016: 62,309 thousand).

As at 31 December 2017, the Bank has RSD 14,195,715 thousand loans denominated in CHF. In September 2016 there was one first instance verdict in favour of the client against one Serbian bank for termination of CHF mortgage loan contract due to significant change of market conditions (strengthening of CHF exchange rate comparing to RSD). This resulted in increased number of litigations of clients with claims for contract termination against the Bank. Despite this one verdict of the contract termination, there is still great uncertainty related to the decision of higher instance court and how this will affect the relationship between banks and client. Management continue to monitor the issue and will decide on the need for a provision to be booked in accordance with IAS 37 once more information is available, given the issue is quite recent. At the moment, the management does not consider that possible negative implications for the Bank are probable.

38. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks. As at 31 December 2017, the Bank's ratios were in compliance with the prescribed levels:

Business indicators	Regulatory limit	2017	Regulatory limit	2016
Capital adequacy	min 8%	29.15%	min 12%	18.54%
Tier I CAD ratio	min 6%	29.15%		
CET 1 ratio	min 4.5%	29.15%		
Long term investments indicator	max 60%	10.53%	max 60%	21.07%
Large exposure of the Bank	max 25%	20.77%	max 25%	24.63%
Large exposures indicator	max 400%	66.69%	max 400%	119.67%
Liquidity indicator:				
first month of reporting period	min 1	1.37	min 1	1.48
second month of reporting period	min 1	1.52	min 1	1.85
last month of reporting period	min 1	1.46	min 1	1.80
Currency risk	max 20%	3.71%	max 20%	1.31%
Liquidity coverage ratio	min 100%	552.22%		
Leverage ratio	n/a	18.33%		

As at 31 December 2017, the Bank was in compliance with all regulatory requirements.

39. Related parties transactions

Eurobank a.d. Beograd is a subsidiary of Eurobank Ergasias ('Eurobank') which is listed on the Athens Stock Exchange.

In November 2015, following the completion of the Eurobank's share capital increase, fully covered by investors, institutional and others the percentage of the Eurobank's ordinary shares with voting rights held by the Hellenic Financial Stability fund (HFSF) decreased from 35.41% to 2.38%.

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over the Eurobank. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Eurobank's General Assembly only for decisions concerning the amendment of the Eurobank's Articles of Association, including the increase or decrease of the Eurobank's capital or the granting of a corresponding authorization to the Eurobank's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Eurobank, the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, the Eurobank has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014, which regulates, among others, (a) the Eurobank's corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of the Eurobank's Non-Performing Loans (NPLs) management framework and of the Eurobank's performance on NPLs resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of the Eurobank's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for the Eurobank's Group Risk and Capital Strategy and for the Eurobank's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in the Eurobank's Board.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

All amounts are expressed in 000 RSD unless stated otherwise

39. Related parties transactions (continued)

Transactions with related parties for the year ended on 31 December 2017 are presented in the table below:

	Eurobank Ergasias	Be-Business Exchanges S.A.	IMO Property Investments	ERB Property services	ERB Leasing	ERB Asset Fin	ERB IT Shared Services	ERB New Europe Funding BV	ERB New Europe Holding B.V.	Eurobank private bank Luxemburg S.A	Eurobank Bulgaria A.D
Assets											
Foreign currency account	43,794	-	-	-	-	-	-	-	-	-	-
Interest and fee receivables	877	-	2,559	-	-	-	-	4,738	-	-	-
Loans to clients	6,397,526	-	651,600	116	-	-	-	-	-	-	-
Investment in shares	-	-	-	-	58,479	-	-	-	-	-	-
Derivative assets	240	-	-	-	-	-	-	-	-	-	-
Other receivables		-		4		-	-	-	-	-	-
Total assets	**6,442,437**	**-**	**654,159**	**120**	**58,479**	**-**	**-**	**4,738**	**-**	**-**	**-**
Liabilities											
Due to customers	195,528	-	264,666	39,319	183,650	-	-	112	45,175	5,311	10,184
Interest and fee payables	-	-	-	-	-	-	-	-	-	-	-
Suppliers	4,317	-	-	-	-	-	-	-	-	-	-
Derivative liabilities	10,808	-	-	-	-	-	-	-	-	-	-
Total liabilities	**210,653**	**-**	**264,666**	**39,319**	**183,650**	**-**	**-**	**112**	**45,175**	**5,311**	**10,184**
Income											
Interest income	69,821	-	17,079	-	-	-	-	-	-	-	-
Interest income on derivatives	3,760	-	-	-	-	-	-	-	-	-	-
MtM	2,438	-	-	-	-	-	-	-	-	-	-
Fee and commission income	-	-	-	-	-	-	-	-	-	-	-
Services	15,020	-	310	76	118	54	-	4,848	-	-	25
Other	-	-	-	-	1,814	-	-	-	-	-	-
Total income	**91,039**	**-**	**17,389**	**76**	**1,932**	**54**	**-**	**4,848**	**-**	**-**	**25**
Expenses											
Interest expense	2,751	-	1,181	82	366	61	-	-	-	-	-
Interest expense from derivatives	23,077	-	-	-	-	-	-	-	-	-	-
Fee and commission expense	37,356	1,433	-	15,114	-	-	-	-	-	-	-
Services	17,264	-	6,709	4,097	-	-	80,512	-	-	-	-
Other			-	2,080	-	-	-	-	-	-	-
Total expenses	**80,448**	**1,433**	**7,890**	**21,373**	**366**	**61**	**80,512**	**-**	**-**	**-**	**-**
Off balance sheet											
Guarantees											
Derivatives	1,331,094	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	184	-	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

39. Related parties transactions (continued)

Transactions with related parties for the year ended on 31 December 2016 are presented in the table below:

	Eurobank Ergasias	Be-Business Exchanges S.A.	IMO Property Investments	ERB Property services	ERB Leasing	RECO Real Property	ERB Asset Fin	ERB IT Shared Services	ERB New Europe Funding BV	ERB New Europe Holding B.V.	Eurobank private bank Luxemburg S.A	Eurobank Bulgaria A.D
Assets												
Foreign currency account	31,579	-	-	-	-	-	-	-	-	-	-	-
Interest and fee receivables	355	-	-	-	-	132	-	-	4,938	-	-	4
Loans to clients	3,370,794	-	681,730		-	24,694	-	-	-	-	-	-
Investment in shares		-	-	-	20,479	-	-	-	-	-	-	-
Derivative assets	6,571	-	-	-	-	-	-	-	-	-	-	-
Other receivables		-	17	-		-	-	-	-	-	-	-
Total assets	**3,409,299**	**-**	**681,747**	**-**	**20,479**	**24,826**	**-**	**-**	**4,938**	**-**	**-**	**4**
Liabilities												
Due to customers	203,077	-	341,372	33,656	124,087	100,564	89,696	-	-	47,079	5,535	10,175
Interest and fee payables		-	-	-	-	-	-	-	-	-	-	-
Suppliers	2,563	3,334	-	5,587	-	363	-	-	-	-	-	-
Derivative liabilities	19,581	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**225,222**	**3,334**	**341,372**	**39,243**	**124,087**	**100,927**	**89,696**	**-**	**-**	**47,079**	**5,535**	**10,175**
Income												
Interest income	52,792	-	16,189	-	-	1,038	-	-	-	-	-	-
Interest income on derivatives	6,364	-	-	-	-	-	-	-	-	-	-	-
MtM	26,233	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	10,562	-	348	68	210	6,932	26	-	4,918	-	-	62
Services	-	-			1,837	-	-	-	-	-	-	-
Other	-	-				-	-	-	-	-	-	-
Total income	**95,951**	**-**	**16,537**	**68**	**2,047**	**7,970**	**26**	**-**	**4,918**	**-**	**-**	**62**
Expenses												
Interest expense	2	-	2,371	280	2,007	554	1,346	-	-	-	-	-
Interest expense from derivatives	41,207	-	-	-	-	-	-	-	-	-	-	-
Fee and commission expense	27,234	4,452	-	11,697	-	-	-	-	-	-	-	-
Services	14,477	-	6,801	2,890	19	62,326	-	131,924	-	-	-	-
Other	-	-	-	6,719	-	40	-	-	-	-	-	-
Total expenses	**82,920**	**4,452**	**9,172**	**21,586**	**2,026**	**62,920**	**1,346**	**131,924**	**-**	**-**	**-**	**-**
Off balance sheet												
Guarantees	-	-	-	-	-	298,260	-	-	-	-	-	-
Derivatives	3,730,406	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	257	-	-	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

39. Related parties transactions (continued)

As at 31 December 2017, loans to employees amounted to RSD 2,149,311 thousand (31 December 2016: RSD 2,207,849 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates were in range from 1.7% to 5.1% for mortgage loans in EUR and from -0.6% to 2.0% for mortgage loans in CHF, while for consumer loans interest rates for RSD loans were in range from 5.3% to 14.8%.

a) Payments key management personnel

	31 December 2017	31 December 2016
Salaries and other contributions	67,714	78,232
	67,714	**78,232**

40. Foreign Exchange rates

The official exchange rates of major currencies which were used for translation of balance sheet items as at 31 December were as follow:

	31 December 2017	31 December 2016
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	114.8473

41. Reconciliation of loans, deposits and other liabilities with clients

As required by the Accounting and Auditing Law, the Bank has performed reconciliation of loans, deposits and other liabilities with clients as at 31 December 2017.

42. Board of directors

Members of the Board of directors of Eurobank as at 31 December 2017 are listed below:

Chairman	Members
Michalakis Louis	Karakasis Theodoros
	Stavros Ioannou
	Angelos Tsichrintzis
	Anastasios Nikolaou
	Michail Vlastarakis
	Ivan Vujacic

43. Events after the reporting period

There were no significant events after balance sheet date that would require disclosure in the Financial Statements.

Slavica Pavlovic
President of the Executive Board

Vladimir Tofoski
Chief Financial Officer