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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS OF

EUROBANK AKCIONARSKO DRUŠTVO BEOGRAD

Report on financial statements

We have audited the accompanying financial statements of Eurobank akcionarsko društvo Beograd ("the Bank"), which comprise the balance sheet as at 31 December 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity and the 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 true and fair view of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter - comparative information

We draw attention to Note 2.1.a) to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2017 has been restated. Our opinion is not modified in respect of this matter.

Other matter – comparative information

The financial statements of the Bank as at and for the year ended 31 December 2017 has been derived, excluding the adjustments described in Note 2.1.a) to the financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on 19 April 2018.

As part of our audit of the financial statements as at and for the year ended 31 December 2018, we audited the adjustments described in Note 2.1.a) that were applied to restate the comparative information presented as at and for the year ended 31 December 2017. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended 31 December 2017, other than with respect to the adjustments described in Note 2.1.a) to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 2.1.a) are appropriate and have been properly applied.

Other matter – reissued auditors' report

As disclosed in the Note 2.1. a) to the financial statements, the Bank's financial statements for the year ended 31 December 2018 were previously issued by the management of the Bank on 24 June 2019. We issued our Independent Auditors' Report on those financial statements on 25 June 2019. However, subsequently to issuance of the financial statements management decided to correct an error in those financial statements related to the impact of initial application of *IFRS 9: Financial Instruments* and also impairment allowance for loans and receivables to customers as at 31 December 2017. The Bank reissued its financial statements for the year ended 31 December 2018 on 24 July 2019. As a result, this Independent Auditors' Report replaces our Independent Auditors' Report, dated 25 June 2019, on the financial statements for the year ended 31 December 2018.

Report on Other Legal and Regulatory Requirements

In accordance with the Law on Accounting of the Republic of Serbia, the Bank is responsible for the preparation of the accompanying annual business report. Our responsibility is to express an opinion on consistency of the annual business report with the financial statements as at and for the year ended 31 December 2018. In this regard, we performed procedures in accordance with the applicable audit standard - *The Auditors' responsibilities relating to other information in documents containing audited financial statements*, which are limited to the assessment of consistency of the annual business report with the financial statements.

In our opinion, the annual business report is consistent with the financial statements.

Belgrade, 30 July 2019 KPMG d.o.o. Beograd

(L.S.)

Tudor Grecu
Partner

Nikola Đenić
Certified Auditor

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Belgrade, 30 July 2019 KPMG d.o.o. Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

(L.S.)

Tudor Grecu
Partner

Nikola Đenić
Certified Auditor

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

EUROBANK A.D.

Income statement for the year ended 31 December 2018

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	Note	(restated) 2018	(restated) 2017
Interest income	2.2, 6	7,885,320	7,403,094
Interest expenses	2.2, 6	(957,937)	(831,447)
Net interest income		**6,927,383**	**6,571,647**
Fee and commission income	2.2, 7	2,698,499	2,698,097
Fee and commission expense	2.2, 7	(595,394)	(547,833)
Net fee and commission income		**2,103,105**	**2,150,264**
Net gains arising from change in fair value of financial instruments	2.2, 8	1,913	3,145
Net gains arising from derecognition of financial instruments measured at fair value	2.2, 9	485	3,689
Net foreign exchange rate gains/(losses)	2.2, 10	49,928	(19,383)
Net losses arising from impairment of financial assets which are not measured at fair value	2.2, 11	(631,534)	(1,521,812)
Net gains arising from derecognition of financial assets measured at amortized cost	2.2, 12	3,489	2,620
Other operating income	13	29,557	9,452
Total operating income		**8,484,326**	**7,199,622**
Salaries, benefits and other personnel expenses	2.4, 14	(1,932,417)	(1,908,932)
Depreciation and amortization	15	(429,498)	(394,372)
Other income	16	90,590	122,414
Other expenses	16	(3,639,187)	(3,322,844)
Profit before tax		**2,573,814**	**1,695,888**
Income tax	2.3, 17	(318,712)	(21,044)
Deferred income tax expense	2.3, 17	(8,289)	(192,153)
Profit for the period		**2,246,813**	**1,482,691**
Earnings per share			
Basic earnings per share (in RSD, without paras)	2.17, 18	8,838	5,832

Belgrade, 24 July 2019

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

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The accompanying notes form an integral part of these financial statements

EUROBANK A.D.
Statement of Other Comprehensive Income for the year ended 31 December 2018
All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	(restated) 2018	(restated) 2017
Profit for the period	**2,246,813**	**1,482,691**
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on defined benefit pensions plans	6,096	(3,624)
Income tax relating to items that will not be reclassified to profit or loss	(915)	544
Items that may be reclassified subsequently to profit or loss		
Movement in fair value reserve (available for sale financial assets)	-	5,578
Income tax relating to items that may be reclassified subsequently to profit or loss	-	1,298
Other comprehensive income, net of tax	5,181	3,796
Total comprehensive income	**2,251,994**	**1,486,487**

Belgrade, 24 July 2019

On behalf of the Bank:

Eurobank a.d. 1 BEOGRAD

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

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EUROBANK A.D.
Balance Sheet as at 31 December 2018
All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	Note	(restated) 31 December 2018	(restated) 31 December 2017
Assets			
Cash and assets held with the central bank	2.9, 19	18,922,554	18,005,519
Pledged financial assets	2.10, 20	1,523,992	3,110,300
Receivables from derivatives	2.6, 21	51,465	11,048
Securities	2.5, 22	10,809,118	10,249,726
Loans and receivables to banks and other financial institutions	2.5, 23	15,885,158	14,303,432
Loans and receivables to customers	2.5, 24	116,142,151	105,331,229
Investments in associates	2.11, 25	36,075	43,681
Intangible assets	2.13, 26	2,161,526	1,944,890
Property, plant and equipment	2.12, 27	3,376,835	3,583,152
Current tax assets	2.3, 17	-	110,752
Deferred tax assets	2.3, 28	42,805	-
Other assets	29	580,814	1,027,450
Total assets		**169,532,493**	**157,721,179**
Liabilities and equity			
Liabilities from derivatives	2.6, 30	56,127	13,222
Deposits and other financial liabilities due to banks, other financial institutions and central bank	2.18, 32	13,352,584	9,225,583
Deposits and other financial liabilities due to customers	2.18, 33	102,537,069	96,617,011
Provisions	2.19, 34	226,548	431,318
Current tax liabilities	2.3, 17	67,442	-
Deferred tax liabilities	2.3, 28	163,181	132,277
Other liabilities	2.20, 35	594,723	849,943
Total liabilities		**116,997,674**	**107,269,354**
Equity			
Share capital and share premium	2.17, 36	31,478,699	31,481,926
Own shares	2.17, 36	-	(500)
Retained earnings	36	11,489,690	9,397,641
Reserves	36	9,566,430	9,572,758
Total equity		**52,534,819**	**50,451,825**
Total liabilities and equity		**169,532,493**	**157,721,179**

Belgrade, 24 July 2019

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

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EUROBANK A.D.

Statement of changes in equity for the year ended 31 December 2018

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	Share capital	Own shares	Share premium	Revaluation reserves	Other reserves	Retained earnings	Total equity
Opening balance as at 1 January 2017	**25,429,927**	**-**	**6,051,999**	**10,627**	**9,558,335**	**7,914,950**	**48,965,838**
Profit for the year ended 31 December 2017 as reported previously	-	-	-	-	-	*2,181,755*	*2,181,755*
Correction of an error related to previous year (Note 2.1a)	-	-	-	-	-	*(699,064)*	*(699,064)*
Profit for the year ended 31 December 2017 as restated	-	-	-	-	-	1,482,691	1,482,691
Other comprehensive income for the year, net of tax	-	-	-	3,796	-	-	3,796
Other – increase/(decrease)	-	(500)	-	-	-	-	(500)
Balance as at 31 December 2017 (restated)	**25,429,927**	**(500)**	**6,051,999**	**14,423**	**9,558,335**	**9,397,641**	**50,451,825**
Balance as at 1 January 2018 (restated)	**25,429,927**	**(500)**	**6,051,999**	**14,423**	**9,558,335**	**9,397,641**	**50,451,825**
Effects of initial application of IFRS 9 as reported previously	-	-	-	*(14,236)*	-	*(998,297)*	*(1,012,533)*
Correction of an error related to previous year (Note 2.1a)	-	-	-	-	-	*822,428*	*822,428*
Effects of initial application of IFRS 9 as restated	-	-	-	(14,236)	-	(175,869)	(190,105)
Other – increase/(decrease)	(2,727)	-	-	-	2,727	-	-
Opening balance as at 1 January 2018 (restated)	**25,427,200**	**(500)**	**6,051,999**	**187**	**9,561,062**	**9,221,772**	**50,261,720**
Profit for the year ended 31 December 2018 as reported previously	-	-	-	-	-	*2,271,486*	*2,271,486*
Correction of an error related to previous year (Note 2.1a)	-	-	-	-	-	*(24,673)*	*(24,673)*
Profit for the year ended 31 December 2017 as restated	-	-	-	-	-	2,246,813	2,246,813
Other comprehensive income for the year, net of tax	-	-	-	5,181	-	-	5,181
Deferred tax effects on initial application of IFRS 9 as reported previously	-	-	-	-	-	*119,796*	*119,796*
Correction of an error related to previous year (Note 2.1a)	-	-	-	-	-	*(98,691)*	*(98,691)*
Deferred tax effects on initial application of IFRS 9 as restated	-	-	-	-	-	21,105	21,105
Other – increase/(decrease)	(500)	500	-	-	-	-	-
Balance as at 31 December 2018 (restated)	**25,426,700**	**-**	**6,051,999**	**5,368**	**9,561,062**	**11,489,690**	**52,534,819**

Belgrade, 24 July 2019

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

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The accompanying notes form an integral part of these financial statements.

EUROBANK A.D.
Cash flow statement for the year ended 31 December 2018
All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	**2018**	**2017**
Cash inflow from operating activities		
Inflow from interest	7,251,284	6,787,783
Inflow from fees and commissions	2,714,366	2,692,035
Inflow from other operating income	669,775	181,381
Inflow from dividends	403	743
	10,635,828	**9,661,942**
Cash outflow from operating activities		
Outflow from interests	(761,175)	(840,438)
Outflow from fees and commissions	(588,665)	(513,837)
Outflow from gross salaries, benefits and other personal expenses	(1,917,708)	(1,851,566)
Outflow from taxes, contributions and other duties charged to income	(673,523)	(663,444)
Outflow from other operating expenses	(2,681,869)	(2,757,842)
	(6,622,940)	**(6,627,127)**
Net cash inflow from operating activities before increase or decrease in loans investments and deposits	**4,012,888**	**3,034,815**
Net inflow from securities	233,412	-
Net inflow from deposits and other liabilities to banks, other financial institutions, central bank and customers	5,908,864	6,977,920
	6,142,276	**6,977,920**
Net cash outflow from loans and investments		
Net outflow from loans and receivables to banks, other financial institutions, central banks and clients	(12,036,575)	(19,243,295)
Net outflow from securities	-	(308,270)
	(12,036,575)	**(19,551,565)**
Net cash inflow for operating activities before profit tax	**(1,881,411)**	**(9,538,830)**
Profit tax paid	(140,518)	-
Net cash inflow for operating activities	**(2,021,929)**	**(9,538,830)**
Cash flow from investing activities		
Inflow from selling of long-term investments	3,085,667	16,783,256
Inflow from selling of intangible assets and fixed assets	2,268	135,114
	3,087,935	**16,918,370**
Cash outflow from investing activities		
Outflow for purchase of long-term investments	(1,801,381)	(13,700,062)
Outflow for investments in associated companies	-	(38,000)
Outflow for purchase of intangible assets, property, plant and equipment	(721,098)	(637,233)
	(2,522,479)	**(14,375,295)**
Net cash flow from investing activities	**565,456**	**2,543,075**
Cash inflow from financing activities		
Inflow from borrowings	21,657,191	24,337,395
	21,657,191	**24,337,395**
Cash outflow from financing activities		
Outflows in own shares repurchase	-	(500)
Outflows from borrowings	(17,890,279)	(22,157,527)
	(17,890,279)	**(22,158,027)**
Net cash inflow from financing activities	**3,766,912**	**2,179,368**
Cash inflow	**41,523,230**	**57,895,627**

The accompanying notes form an integral part of these financial statements

EUROBANK A.D.

Cash flow statement for the year ended 31 December 2018

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	2018	2017
Cash outflow	(39,212,791)	(62,712,014)
Net cash inflow/(outflow)	2,310,439	(4,816,387)
Cash and cash equivalent at the beginning of the year	10,318,700	15,239,177
Effect of exchange rate fluctuations on cash and cash equivalents held	245,402	(104,090)
Cash and cash equivalent at the end of the reporting period (Note 19)	**12,874,541**	**10,318,700**

Belgrade, 24 July 2019

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

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The accompanying notes form an integral part of these financial statements

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

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 2018 the Bank had 1,499 employees (31 December 2017: 1,467 employees). The Bank's network comprises of 80 branches and business centers (31 December 2017: 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. The policies set out below have been consistently applied to all periods presented in these financial statements, except as described in this section as well as in notes 2.2., 2.5 2.8, 2.9, 210, 2.22 and 2.23 as result of transition to IFRS 9.

Accounting policies and estimates relating to recognition and measurement of assets and liabilities, applied in the preparation of these financial statements, are consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended 31 December 2017, except for the changes in accounting policies arising from application of IFRS9.

The Bank adopted IFRS 9 as at 1 January 2018. With respect to IFRS 9 initial application, the Bank applied the Standard's exemption not to restate comparative figures for prior periods; therefore, the Bank's 2017 comparatives are presented on an IAS 39 basis. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognized as an adjustment to retained earnings. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in note 2.23.

2.1. Basis of preparation

The Bank prepares its financial statements in accordance with the International Financial Reporting Standards (IFRSs). Pursuant to the Law on Accounting (Official Gazette of the Republic of Serbia no. 62/2013 and 30/2018), banks are required to maintain their books of account and to prepare financial statements in accordance with International Financial Reporting Standards (IFRS).

These financial statements have been prepared under the historical cost basis except for the revaluation of the available for sale financial assets (policy applicable prior to 1 January 2018), and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

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.

These financial statements are individual financial statements of the Bank.

The Bank's presentation currency is the RSD being the functional currency of the Bank. All financial information is presented in RSD rounded to the nearest thousand, unless stated otherwise.

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.

a) Restatement

The Bank's financial statements for the year ended 31 December 2018 were previously issued by the management of the Bank on 24 June 2019. As explained below, subsequent to the to issuance of the financial statements management decided to adjust those financial statements with regards to the impact of initial application of IFRS 9 in respect of loans and receivables to customers as at 1 January 2018 and furthermore related to the impairment of loans and receivables to customers as at 31 December 2017 determined in accordance with IAS 39. The Bank reissued its financial statements for the year ended 31 December 2018 on 24 July 2019.

In the context of IFRS 9 adoption disclosed in the Note 2.23, the Bank applied several assumptions in measuring the impairment of loans and receivables to customers. During 2018, the Bank concluded that some of those assumptions referring to loans and receivables to customers that were identified as credit impaired (stage 3), under IFRS 9, were applicable to the respective loans and advances to customers population under IAS 39, as they are deemed to be more accurate than the ones used under IAS 39:

- improvements of default definition – in the areas of treatment of Forborne Non performing exposures, probation/curing period, Unlikely to Pay criteria as well as contamination rules i.e. facility/client level application of application of revised definition of default,
- adjustments to collateral haircut and liquidation period,
- change of the Bank's approach in treatment of impaired loans which are in deep delay (3 and 9 years for unsecured and secured exposures respectively).

This resulted in including an amount of RSD 822,428 thousand referring to credit losses in the IFRS 9 transition adjustment as at 1 January 2018, instead of this amount being recorded as part of the IAS 39 loans and receivables to customers' provision charge for the year ended 31 December 2017.

The above has been addressed by restating each of the affected financial statements line items for the comparative period ended 31 December 2017 and period ended 31 December 2018 as well as relevant regulatory ratios disclosed in the Note 38.

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The following tables summarize the restatement impact on the Bank's financial statements as at 31 December 2017:

Balance sheet as of 31st December 2017	in RSD thousands
Decrease of loans and receivables to customers	(803,466)
Increase of current tax assets	110,752
Increase of other assets	798
Decrease of total assets	**(691,916)**
Increase of provisions	19,760
Decrease of current tax liabilities	(3,373)
Decrease of deferred tax liabilities	(9,239)
Decrease of Retained earnings	(699,064)
Decrease of total liabilities and equity	**(691,916)**

Income statement for the year ended 31 December 2017	in RSD thousands
Increase of net losses arising from impairment of financial assets which are not measured at fair value	(822,428)
Decrease of income tax	114,125
Decrease of deferred income tax profit / (loss)	9,239
Decrease of profit for the year	**(699,064)**

The above restatement had the following impact on Bank's financial position and result for the year ended 31 December 2018:

Balance sheet as of 31 December 2018	in RSD thousands
Decrease of deferred tax assets	(98,692)
Decrease of total assets	**(98,692)**
Decrease of current tax liabilities	(98,692)
Decrease of total liabilities and equity	**(98,692)**

Income statement for the year ended 31 December 2018	in RSD thousands
Increase of income tax	15,434
Increase of deferred income tax expense	9,239
Decrease of profit for the year	**24,673**

There is no impact on the operating, investing or financing cash flows for the year ended 31 December 2017 nor for the year ended 31 December 2018.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

b) New and amended Standards and interpretations

The following amendments to standards, as issued by the International Accounting Standards Board (IASB) apply from 1 January 2018:

IFRIC 22, Foreign Currency Transactions and Advance Consideration. IFRIC 22 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 interpretation had no impact on 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 at 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 had no impact on the Bank's financial statements.

IFRS 2, Amendment-Classification and Measurement of Share-based Payment Transactions. 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 had no impact on the Bank's financial statements.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

IAS 40, Amendment-Transfers of Investment Property. 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 had no impact on the Bank's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle. The IASB through the 2014-2016 annual improvements cycle, provided a clarification for 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. Such election can be performed on an investment-by-investment basis in associates or joint ventures.

The adoption of the amendment had no impact on the Bank's financial statements.

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments. IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognize and replaced 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', 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 as the service is provided to the customer provided that it is probable that a significant reversal of consideration will not occur. 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.

The adoption of the standard and its amendment had no impact on the Bank's financial statements as net interest income, which is a primary revenue stream of the Bank, is not impacted by the adoption of IFRS 15. Furthermore, regarding Bank's revenue from contracts with customers, including fee and commission income, for services provided over time, or transactions executed at point in time, there was no change in their accounting treatment as it is consistent with the Bank 's existing accounting policy.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

IFRS 9 Financial Instrument. On 1 January 2018, the Bank adopted IFRS 9 'Financial Instruments', which replaces IAS 39, 'Financial Instruments: Recognition and Measurement'. The adoption of IFRS 9 in 2018 resulted in changes in accounting policy in two principal areas, classification and measurement of financial assets and liabilities and impairment of financial assets. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognized as an adjustment to retained earnings. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in note 2.23.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

Changes in the classification and measurement

IFRS 9 applies 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. To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. Reclassifications between categories are made only in rare circumstances.

For the purpose of the transition to IFRS 9, the Bank carried out a business model assessment across various portfolios for its debt instruments to determine any potential changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that existed at the date of initial application i.e. 1 January 2018 (see section 2.23).

In general, the IAS 39 categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held to maturity (HTM) and Loans and Receivables) have been replaced by:

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss (FVTPL) and
- financial assets measured at fair value through other comprehensive income (FVOCI).

The Bank may, at initial recognition, designate a financial asset at FVTPL in order to eliminate or significantly reduce 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 in Other Comprehensive Income (OCI). This election is made on an investment-by-investment basis.

The IFRS 9 eligibility requirements for applying the fair value option to measure financial liabilities at FVTPL are consistent with those of IAS 39. 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.

Finally, under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The Bank's classification of its financial assets and liabilities is explained in Section 2.23 of this Notes. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.23.

Changes to the impairment calculation

The adoption of IFRS 9 has changed significantly the Bank's accounting for financial assets' impairment by replacing IAS 39 "incurred loss" approach with an "expected credit loss" (ECL) approach, which requires the use of complex models and significant judgment about future economic conditions and credit behavior. Credit losses are recognized earlier under IFRS 9 compared to IAS 39.

IFRS 9 requires the Bank to record an allowance for credit loss for all financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, which are off-balance sheet items. The allowance is based on the ECL calculation of the related probability of default of the debtor in the next twelve months unless there has been a significant increase in credit risk since origination of the exposure, when lifetime ECL is measured. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

Details of the Bank's impairment policy are disclosed in Section 2.8 and 4.1.2 of this Notes. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.23.

Consequential changes in disclosures (IFRS 7 'Financial Instruments: Disclosures')

Effective from 1 January 2018, due to IFRS 9 transition, these financial statements include transition disclosures, which provide qualitative and quantitative information about the impact from the revised classification and measurement and ECL principles. In addition, these financial statements include, the enhanced classification and measurement and impairment disclosures as required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'. Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

c) New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards, amendments to existing standards and interpretations are effective for annual periods beginning after 1 January2018, and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements. Those that may be relevant to the Bank are set out below:

IFRS 9, Amendment–Prepayment Features with Negative Compensation (effective 1 January 2019).

The amendment changes IFRS 9 requirements in order to allow measurement of a financial asset at amortized cost or at FVOCI, depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination receiving compensation from the other party (negative compensation). Therefore, measurement of these financial assets will be regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendment would probably result in the measurement of these financial assets at FVTPL. The amendment also confirms the modification accounting of financial liabilities under IFRS 9. In specific, when a financial liability measured at amortized cost is modified without this resulting in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognized in profit or loss.

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

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

IFRIC 23, Uncertainty over Income Tax Treatments (effective 1 January 2019). 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. 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 (i.e. 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 (e.g. 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 materially impact the Bank's financial statements.

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 change in the definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

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. The accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

Operating lease commitments as at 31 December 2018, presented in accordance with the disclosure requirements of IAS 17 for the minimum lease payments under non-cancellable operating leases, are set out in note 37.

The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because:

- New standard requires the Bank to review its accounting processes and internal controls, while these activities are still not performed completely;
- Systems and related controls, established in accordance with new requirements, have not been operative during the entire reporting period;
- New accounting policies, assumptions, judgments and measurement techniques in use, are the subject of changes, until the Bank submits first financial reports that include date of initial application of standard.

Transition to IFRS 16

The date of initial application of IFRS 16 for the Bank will be 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 and therefore comparative information will not be restated. Upon transition, the Bank plans to use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease.

Lessee Accounting

In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee will recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Bank intends to apply this initial measurement principle to all leases, except for those with lease term of 12 months or less - making use of the short-term leases and leases of low-value assets exemptions. Accordingly, in estimating the impact from IFRS 16 adoption, the Bank has assessed right-of-use assets of approximately RSD 2,155 million and corresponding lease liabilities of approximately RSD 2,140 million arising from leases of properties, vehicles and other equipment, while no impact is expected on shareholders' equity. The estimated impact of capital adequacy arising primarily from the increase in risk-weighted assets is a reduction of approximately 0.44 pps on the Bank's common equity Tier I ratio by applying regulatory transitional arrangements (approximately 0.44 pps on the Banks's CET1 ratio, on a fully loaded basis).

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

With regard to subsequent measurement, the Bank, acting as a lessee, plans to apply the cost model for the measurement of right-of-use asset. Accordingly, the right-of-use asset will be measured at cost less any accumulated depreciation and accumulated impairment losses and adjusted for the remeasurement of the lease liability. On the other hand, interest expense will be recognized on the lease liabilities, while their carrying amount will be reduced to reflect the lease payments made. In case of any reassessments or lease modifications specified, the carrying amount of the lease liabilities will be remeasured to reflect revised lease payments.

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, an entity should not take into account any adjustments to the carrying amount of long term interests (net investment in the associate or joint venture), resulting from the application of IAS 28 'Investments in Associates and Joint Ventures' when applying IFRS 9.

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

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 materially impact the Bank's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective 1 January 2019).

The improvements introduce key changes to several standards as set out below: The amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. Specifically, when an entity obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party re-measures the entire previously held interest in the assets and liabilities of the joint operation at fair value. Conversely, if a party obtains joint control, of a business that is a joint operation then the previously held interest is not re-measured.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The improvement to IAS 12 'Income Taxes' 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, according to where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.

IAS 23 'Borrowing costs' amendment clarified that any borrowing originally performed to develop a qualifying asset should be treated as part of the funds that the entity borrowed generally, 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 materially impact the Bank's financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020). In March 2018, the IASB issued its revised Conceptual Framework. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced a new chapter of measurement, updated definitions of an asset/liability and recognition criteria, as well as clarifications on important areas.

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

Amendment to IFRS 3 Business Combinations (effective 1 January 2020). The IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations" to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, and add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

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

Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020). The amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" aim to to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to the new definition information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

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

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

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 provided that the entity 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 at 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 if 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. At its November 2018 meeting, the IASB decided to propose a one-year deferral of the effective date for IFRS 17 to 2022 IFRS 17 is not relevant to the Bank's activities.

d) Transactions and balances in foreign currency

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.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognized in the income statement.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

2. Summary of significant accounting policies (continued)

2.2. Income statement

a) Interest income and expense

Policy applicable from 1 January 2018

Interest income and expense is recognized in the income statement on an accrual basis, using the effective interest rate (EIR) method. 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 gross carrying amount of the financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses.

The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets, adjusted for the expected credit loss allowance. The gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.

The EIR calculation includes nominal interest rate and disbursement fees. Disbursement fees are mainly related to corporate short term loans and they are linearly amortised during whole life of the loans. However, the Bank's assessment is that such method has no material effects on the financial statements.

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) and to the amortized cost of financial liabilities respectively. For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortized cost of the financial asset (i.e. gross carrying amount adjusted for the expected credit loss allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

Interest income and expense is presented separately in the income statement for all interest bearing financial instruments within net interest income.

Policy applicable before 1 January 2018

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.

2. Summary of significant accounting policies (continued)

2.2. Income statement (continued)

b) Fee and commission income

Fee and commission received or paid that are integral to the effective interest rate on a financial asset or financial liability which are in the scope of IFRS 9 are included in the effective interest rate.

Other fee and commission income such as account servicing and loan servicing/monitoring is recognised over time as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognized will not occur. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised at the point in time when the transaction takes place.

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

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.

All net gains and losses are presented under net gains arising from change in fair value of financial instruments (note 8), net gains arising from derecognition of financial instruments measured at fair value (note 9) and net foreign exchange gains (losses) (note 10).

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% (2017: 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 to be submitted to tax authorities until the 30 June of the following year, bearing in mind that deadline for submission to the tax authorities is 180 days from the date on which tax is determined.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

2. Summary of significant accounting policies (continued)

2.3. Income tax expense (continued)

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. The Bank recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 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.

2.4. Employee benefits

a) ***Short term benefits***

Short term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and are expensed as these services are provided.

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) Standard legal staff retirement indemnity obligations (SLSRI) and termination benefits

In accordance with the local labor legislation, the Bank provides for staff retirement indemnity obligation for employees which are entitled to a lump sum payment based on the number of years of service and the level of remuneration at the date of retirement, if they remain in the employment of the Bank until normal retirement age. Provision has been made for the actuarial value of the lump sum payable on retirement (SLSRI) using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The SLSRI obligation is calculated as the present value of the estimated future cash outflows using interest rates of high quality corporate bonds. In countries where there is no deep market in such bonds, the yields on government bonds are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations.

2. Summary of significant accounting policies (continued)

2.4. Employee benefits (continued)

Actuarial gains and losses that arise in calculating the Bank's SLSRI obligations are recognized directly in other comprehensive income in the period in which they occur and are not reclassified to the income statement in subsequent periods.

Interest on the staff retirement indemnity obligations and service cost, consisting of current service cost, past service cost and gains or losses on settlement are recognized in the income statement. In calculating the SLSRI obligation, the Bank also considers potential separations before normal retirement based on the terms of previous voluntary exit schemes.

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the Bank recognizes costs for a restructuring that involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Termination benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

c) 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.

The basic assumptions used in calculations are presented in the note 34.

2.5. Financial assets

Policy applicable from 1 January 2018

Financial assets - Classification and measurement

The Bank classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories: amortized cost ("AC"), fair value through other comprehensive income or fair value through profit or loss. Purchases and sales of financial assets are recognized on trade date, which is the date the Bank commits to purchase or sell the assets. Loans originated by the Bank are recognized when cash is advanced to the borrowers.

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

Financial Assets measured at Amortized Cost ('AC')

The Bank classifies and measures a financial asset at AC only if both of the following conditions are met:

a) The financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model) and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method. Interest income and changes in expected credit losses from assets classified at AC, are included in the income statement.

Financial Assets measured at Fair Value through Other Comprehensive Income ('FVOCI')

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met:

a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model) and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and expected credit losses, which are recognized in the income statement. Cumulative gains and losses previously recognized in OCI are transferred from OCI to the income statement when the debt instrument is de-recognized.

Equity Instruments designated at FVOCI

The Bank may make an irrevocable election to designate an equity instrument at FVOCI. This designation, if elected, is made at initial recognition and on an instrument by instrument basis. Gains and losses on these instruments, including when de-recognized, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement.

2. Summary of significant accounting policies (continued)

Financial Assets measured at Fair Value through Profit and Loss ("FVTPL")

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI and financial assets held for trading. Derivative financial instruments are measured at FVTPL, unless they are designated and effective hedging instruments, in which case hedge accounting requirements under IAS 39 continue to apply. Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

The business model assessment determines how the Bank manages a group of assets 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. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which are managed similarly rather than at an individual instrument's level. The business model is determined by the Bank's key management personnel consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales' strategy, where applicable. Accordingly, in making the above assessment, the Bank will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

Business model assessment

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.

The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model. Debt instruments classified within this business model include bonds, due from banks and loans and advances to customers which are measured at amortized cost, subject to meeting the SPPI assessment criteria.

2. Summary of significant accounting policies (continued)

The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model would include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.

The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and Non-performing exposures (NPE) strategy.

Cash flow characteristics assessment

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. In assessing whether the contractual cash flows are SPPI, 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. On the initial recognition of a financial asset, an assessment is performed of whether the 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 is considered to have failed the SPPI assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments. In case of special lending arrangements such as non-recourse loans, in its assessment of the SPPI criterion, the Bank considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets. Moreover, for special purpose entities, the Bank takes into consideration the borrower's adequacy of loss absorbing capital by assessing jointly the criteria of equity sufficiency, Loan to Value ratio (LTV), the Average Debt Service Coverage ratio (ADSCR) as well as the existence of corporate and personal guarantees.

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis on the contractual cash flows of the financial asset, it does not affect its classification. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. In such a case, it does not affect the instrument's classification.

The Bank performs the SPPI assessment for its lending exposures on a product basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio and debt securities, the assessment is performed on an individual basis.

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

Derecognition and modification of Financial assets

The Bank derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. Control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party.

The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention. In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial, the original financial asset is then derecognized. The Bank records the modified asset as a ‘new’ financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

Modifications that may result in de-recognition include:

- change in borrower,
- change in the currency that the lending exposure is denominated,
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement,
- the removal or addition of conversion features and/or profit sharing mechanisms and similar terms which are relevant to the SPPI assessment.

Reclassifications of financial assets

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank’s Executive Board and the amendment is reflected appropriately in the Bank’s budget and business plan.

The reclassification is applied prospectively from the reclassification date, therefore previously recognized gains, losses (including impairment losses) or interest are not restated.

Policy applicable before 1 January 2018

The Bank classified 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 determined the classification of its investments at initial recognition.

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

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.

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.

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

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.

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

Derivative financial instruments, including foreign exchange contracts, currency swaps, and other derivative financial instruments, 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. 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.

Fair values of derivatives are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in note 21.

In order to efficiently manage liquidity in different currencies, the Bank uses excess of liquidity in one currency to overcome the lack of liquidity in other currency through the currency swap transaction (FX Swap) and the cross-currency interest rate swap transaction (CIRS). Also, in order to protect against the interest rate risk exposure, to which it is exposed by concluding interest swap deals with corporate clients, the Bank simultaneously close its position with the Group with the interest rate swap transactions of the same characteristics. All of the transactions with derivatives are concluded by the Bank for economic reasons and it can be considered as economic hedge.

2. Summary of significant accounting policies (continued)

2.6. Derivatives (continued)

Offsetting derivative 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. Fair value measurement of financial instruments

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses other valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognized in the income statement. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss).

Subsequently the deferred gain or loss is amortized on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 5).

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets

Policy applied from 1 January 2018

The Bank assesses the impairment of on-balance sheet assets and the possible loss per off-balance items pursuant to the requirements of IFRS 9.

For the measurement of impairment on exposures measured at amortized cost in accordance with IFRS 9, the Bank uses expected credit loss (ECL) model. A loss allowance is recognized for expected credit losses and it is measured at each reporting date.

The Bank uses the three stages approach that reflects changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month ECL is recognized for all lending exposures for which there is no significant increase in credit risk since initial recognition. 12-month ECL is the portion of ECL that results from default events that are possible within the next 12 months after the reporting date. 12-month ECL is recognized for exposures which are considered to be in 'stage 1', while lifetime ECL is recognized for: i) exposures which have experienced a significant increase in credit risk and are classified in 'stage 2'; ii) credit impaired exposures classified in 'stage 3'.

Expected Credit Losses are defined as a probability-weighted estimate of credit losses that the Bank expects to experience over the period in which it is exposed to credit risk from a lending exposure. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of a lending exposure and the cash flows that the Bank expects to receive discounted at the original effective interest rate (EIR) of the instrument. For the purposes of measuring expected credit losses, the Bank estimates expected cash shortfalls, which reflect the cash flows expected from cash recoveries and collateral liquidation and other credit enhancements that are part of the contractual terms of the lending arrangement.

Assessment of loss allowance can be performed either on an individual basis or on a collective basis. The Bank segments its exposures on the basis of shared credit risk characteristics for the purposes of measuring loan loss allowance on a collective basis. Details regarding impairment policy are presented in the part 4.1.2.

Uncollectable receivables write-off

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. The Bank recognises loss allowance in the amount of 100% of its gross carrying amount after 9 years of delay for secured and after 3 years of delay for unsecured exposures in retail portfolio (mortgage, small business, and consumer).

Policy applied before 1 January 2018

a) Assets classified as loans and advances

The Bank established allowance for impairment losses that represented its estimate of incurred losses in its loan portfolio. The assessment of incurred losses was 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.

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets (continued)

At each reporting date Bank determined whether objective evidence of impairment of financial asset or group of financial assets exists. A financial asset or a group of financial assets were impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The criteria that the Bank was taken into consideration to determine if there is an objective evidence of impairment included:
- 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 determined that no objective evidence of impairment exists for an individually assessed financial asset, or assessed zero provisions at individual level, it included the asset in the group of financial assets with similar credit risk characteristics and collectively assessed its impairment. Assets that were individually assessed for impairment and for which an impairment loss was calculated at individual level, were not included in a collective assessment of impairment.

The amount of the loss for individually assessed financial assets was 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 was reduced through the use of an allowance account and the amount of the loss was 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 was 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 included cash flows from liquidation of collaterals. These cash flows included inflows that could result from foreclosure of collateral less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, financial assets were 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 were 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 was collectively assessed were estimated on the basis of the historical data for assets with similar credit risk characteristics. Historical loss experience was 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 reflected 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 were reviewed and back tested regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreased, and the decrease was objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss was reversed by adjusting the allowance account. The amount of the reversal was recognized in the income statement in impairment charge for credit losses.

Write-off policy

The Bank had written off a loan/security balance (and any related allowances for impairment losses) when it was determined that the loans/securities are uncollectible. This determination was 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 were based on a product specific past due status. Any write-off was 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.

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.

2.9. Cash and balances with central bank

Cash and cash equivalents comprise of cash on Giro and current accounts in dinars, cash in hand and other cash and cash equivalents in dinars, foreign currency account, cash in hand and other cash and cash equivalents in foreign currency and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

2.10. 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 recognized as interest and accrued over the life of the agreements using the effective interest rate method.

2.11. Investments in associates

Investments in associates are accounted for using the equity method of accounting in the financial statements in accordance with IAS 28 Investments in Associates and Joint Ventures. These are undertakings over which the Bank exercises significant influence but which are not controlled.

Equity accounting involves recognizing in the income statement the Bank's share of the associate's profit or loss for the year. The Bank's interest in the associate is carried on the balance sheet at an amount that reflects its share of the net assets of the associate and any goodwill identified on acquisition net of any accumulated impairment losses. If the Bank's share of losses of an associate equals or exceeds its interest in the associate, the Bank discontinues recognizing its share of further losses, unless it has incurred obligations or made payments on behalf of the associate. Where necessary the accounting policies used by the associates have been changed to ensure consistency with the policies of the Bank.

When the Bank obtains or ceases to have significant influence, any previously held or retained interest in the entity is remeasured to its fair value, with any change in the carrying amount recognized in the income statement, except in cases where an investment in associate becomes an investment in a joint venture where no remeasurement of the interest retained is performed and use of the equity method continues to apply.

2.12. Property, plant 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.

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:

	2018 in years	2017 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

2. Summary of significant accounting policies (continued)

2.12. Property, plant and equipment (continued)

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.

2.13. 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.

2.14. 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.

2.15. Repossessed assets

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, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. Any gains or losses on liquidation are included in "Other income".

2. Summary of significant accounting policies (continued)

2.16. 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.

Operating lease commitments as at 31 December 2018, presented in accordance with the disclosure requirements of IAS 17 for the minimum lease payments under non-cancellable operating leases, are set out in note 37a).

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.

2.17. 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

The Bank voluntary presents earnings per share which 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)

2.18. Financial liabilities

The Bank is measuring financial liabilities at amortized cost except derivatives that are measured at fair-value-through-profit-or-loss.

a) 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.

b) 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.

c) Customer accounts

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

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognized in the income statement.

2.19. Provisions

Provisions 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.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

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.

2.20. Other liabilities

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

2. Summary of significant accounting policies (continued)

2.21. Related party transactions

Related parties of the Bank include:

a) an entity that has control over the Bank and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members,
b) members of key management personnel of the Group, their close family members and entities controlled or jointly controlled by the abovementioned persons,
c) associates and joint ventures of the Bank and
d) fellow subsidiaries.

Transactions of similar nature are disclosed on an aggregate basis.

2.22. Financial guarantees and commitments to extend credit

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 granted to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized at fair value. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the loss allowance, and the amount initially recognised less any cumulative amortization of the fee earned, where appropriate.

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9 (Note 3a).

2.23. IFRS 9 'Financial Instruments' – Impact of adoption

Adoption of IFRS 9

The Bank adopted IFRS 9 as at 1 January 2018. The Bank applied the Standard's exemption not to restate comparative figures for prior periods; therefore the Bank's 2017 comparatives are presented on an IAS 39 basis. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognized as an adjustment to opening retained earnings.

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.

2. Summary of significant accounting policies (continued)

2.23. IFRS 9 'Financial Instruments' – Impact of adoption (continued)

Overall governance was achieved through a central Program Management Office (PMO) that coordinates the implementation of the Program among the various stakeholders and was responsible for the day-to-day management tasks, as well as two management committees, namely the Steering Committee and the Technical Committee. The Steering Committee, which comprised senior staff from all the main functions of the Group, was mandated to oversee the implementation in accordance with the Standard, monitor timeliness and the quality of the Program's deliverables, review program's results, approve deliverables and changes in the scope of the program where appropriate, and regularly informed Eurobank Ergasias's the Executive Board, the Board Risk Committee, the Audit Committee and the Board of Directors on the Program's implementation progress. The Technical Committee was composed of Subject Matter Experts responsible for evaluating key technical issues and analyzing proposed changes in accounting policies and risk management methodologies for the Steering Committee before they were submitted and approved by the competent bodies of the Eurobank Ergasias.

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 included 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.

Transition to IFRS 9 – Impact

The impact of transitioning to IFRS 9, before tax, amounts to RSD 190,105 thousand and it is attributed to the impact on the Bank's lending portfolio. 14 million RSD is attributed to the reclassification from revaluation reserves coming from shares in AFS portfolio to retained earnings due to reclassification of shares from AFS to FVTPL and measurement in line with the standard requirements while the amount of RSD 111 thousand is related to currency translation impact.

The transition to IFRS 9 results in a decrease of the Bank's total shareholders equity by RSD 190,105 thousand, which is recognised as an opening balance adjustment as at 1 January 2018.

Transitioning impact of the IFRS 9 first time adoption is given in the following table:

Impact attributed to:	***(restated)*** ***IFRS 9 impact as of 1 January 2018*** *(in 000 RSD)*
Impairment	
- Loans and advances to customers (including off-balance exposures)	305,712
- Other financial assets	(115,718)
Total impairment	**189,994**
FX differences	111
Total impairment	**190,105**

2. Summary of significant accounting policies (continued)

2.23. IFRS 9 'Financial Instruments' – Impact of adoption (continued)

The Bank, based on the relevant legislation applicable as of 1 January 2018, was not able to recognize a deferred tax asset (DTA). In December 2018, there were amendments of the corporate income tax law which allows recognition of positive impact of the first-time adoption of IFRS 9 linearly in next five years, starting from 2018. As a result of these amendments of the Law, the Bank has recognized 21,105 RSD thousands of DTA, as deductible item of the taxable profit used for the corporate income tax calculation in the five years period.

The amount of RSD 14.1 million is reclassified from revaluation reserves to retained earnings due to reclassification of shares from AFS to FVTPL.

Further analysis of the IFRS 9 impact is presented below.

Re-classification and re-measurement of carrying amounts upon IFRS 9 transition

For the purpose of the transition to IFRS 9, the Bank carried out a business model assessment across various portfolios for its debt instruments portfolios to determine any potential changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that existed at the date of initial application i.e. 1 January 2018.

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

2.23. IFRS 9 'Financial Instruments' – Impact of adoption (continued)

The table below discloses the changes in the carrying amounts and the classifications of financial assets and liabilities upon transition to IFRS 9 as of 1 January 2018.

	IAS 39			*(restated)*		*(restated)* Effect			
								Reclassification	
Net carrying amount	**Portfolio**	**Measurement**	**New classification IFRS 9**	**IAS 39 Net value as at 31 December 2017**	**IFRS 9 Net value as at 1 January 2018**	**Remeasurement**		**Mandatory**	**Optional**
Cash and assets held with the central bank	Loans and receivables	Amortized cost	Amortized cost	18,005,519	18,005,098	421	-	-	-
Financial assets at fair value through profit or loss held for trading	Held for trading	FVTPL	FVTPL	322,759	322,759	-	-	-	-
Financial assets AFS - Shares	AFS	Fair value through OCI	FVTPL	21,218	21,218	-	-	-	-
Financial assets AFS - Bonds	AFS	Fair value through OCI	Amortized cost	9,916,797	9,894,649	22,148	-	-	-
Loans and receivables to banks and other financial institutions				14,303,432	14,440,409	(136,977)	-	-	-
Loans and receivables to customers	Loans and receivables	Amortized cost	Amortized cost	105,331,229	104,992,184	339,045	-	-	-
Other assets	Amortized cost	Amortized cost	Amortized cost	1,027,450	1,025,411	2,039	-	-	-
Total on-balance sheet financial assets				**148,928,404**	**148,701,728**	**226,676**	-	-	-
Off-balance sheet items	Amortized cost	Amortized cost	Amortized cost	26,423,261	26,459,943	(36,682)	-	-	-
Total balance sheet and off-balance sheet items				**175,351,665**	**175,161,671**	**189,994**	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

2.23. IFRS 9 'Financial Instruments' – Impact of adoption (continued)

Impairment allowance	IAS 39 Measurement method	IFRS 9 Measurement method	*(restated)* IAS 39 Value as at 31.12.2017	IFRS 9 Value as at 1 January 2018	*(restated)* Effects from transition to ECL concept
Cash and Central Bank Balances	Amortized cost	Amortized cost	-	421	421
Financial assets AFS - Bonds	AFS	Amortized cost	-	22,148	22,148
Loans and receivables from Banks and other financial institutions	Amortized cost	Amortized cost	144,082	7,105	(136,977)
Loans and receivables from customers	Amortized cost	Amortized cost	9,332,764	9,671,809	339,045
Other assets	Amortized cost	Amortized cost	151,549	153,588	2,039
Total effects form transition to ECL concept	**Amortized cost**	**Amortized cost**	**9,628,395**	**9,855,071**	**226,676**
Off-balance sheet items	**Amortized cost**	**Amortized cost**	**243,374**	**206,692**	**(36,682)**
Total			**9,871,769**	**10,061,763**	**189,994**

For financial liabilities, there were no changes in method of measurement and reclassifications as a result of IFRS 9.

2. Summary of significant accounting policies (continued)

2.23. IFRS 9 'Financial Instruments' – Impact of adoption (continued)

Further analysis of the IFRS 9 impact with regards to loans and receivables from customers is presented below.

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

				Of which:		Impairment Allowance:		
Stage	**Total Gross Exposure**	**Total On-balance**	**Total Off-balance**	**Performing**	**Non-performing**	***(restated)* IAS 39**	**IFRS 9**	***(restated)* Change**
Stage 1	110,036,437	86,729,416	23,307,021	110,036,437	-	400,876	363,394	(37,482)
Stage 2	11,291,808	10,659,559	632,249	11,291,808	-	89,460	432,654	343,194
Stage 3	19,937,349	17,275,018	2,662,331	-	19,937,349	9,094,229	9,094,229	-
Total	**141,265,594**	**114,663,993**	**26,601,601**	**121,328,245**	**19,937,349**	**9,584,565**	**9,890,277**	**305,712**

The impact per stage of lending exposures comprises a minor positive effect of RSD 37,482 thousand in Stage 1, a negative impact of RSD 343,194 thousand in Stage 2 and no impact in Stage 3.

The main driver of the impact for Stage 2 loans was the calculation of the lifetime expected credit losses compared to IBNR losses calculated under IAS 39. This includes the impact of performing forborne exposures, which have been allocated to Stage 2 lending exposures.

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 are addressed below.

a) Impairment losses on loans and advances and off-balance exposures

Policy applicable from 1 January 2018

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors which can result in significant changes to the timing and amount of allowance for credit loss to be recognized.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase of credit risk

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable information that includes significant management judgment.

Development of ECL models including the various formulas, choice of inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterization based on observed point-in-time data. The ECL calculations are based on input parameters, i.e. EAD, PDs, LGDs, CCFs, etc.

Furthermore, the PDs are unbiased rather than conservative and incorporate relevant forward-looking information where applicable. The forecasting risk parameters models incorporate a number of explanatory variables with adequate predictive capability. The models are developed using advanced methodology and validated in order to ensure independent review of the model's characteristics and predictivity.

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default.

3. Critical accounting estimates and judgments (continued)

Modeling and Management overlays / adjustments

A number of models have been developed or modified to calculate ECL, while temporary management adjustments may be required to capture new developments and information available which are not yet reflected in the ECL calculation through the risk models. Internal counterparty rating changes, new or revised models and data may significantly affect ECL. The models are under responsibility of the Risk Management Division where a dedicated department has been established covering activities and tasks related to models.

Sensitivity analysis on lending portfolios

The Bank performs, on ad hoc basis, sensitivity analysis by estimating the effect of potential change of credit risk parameters on ECL.

It is noted that sensitivity analysis when performed on certain key parameter can provide meaningful information only for portfolios where an individual risk parameter has a significant impact on the overall credit risk of a lending portfolio, particularly where such sensitivities are also used for internal credit risk management purposes. Otherwise, sensitivity on certain individual risk parameters may not produce meaningful results as in reality there are interdependencies between the various economic inputs rendering a change in any individual parameter correlated changes in other factors.

The Bank updates and reviews the reasonability and performs validation of the models used in ECL measurement, at least on an annual basis or earlier, based on facts and circumstances. In this context, experienced and dedicated staff within the Bank's Risk Management function monitors the risk parameters applied for the estimation of ECL.

Policy applicable before 1 January 2018

The Bank reviewed 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 made judgments as to whether there was 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 included 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 Bank, Management used 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 were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Critical accounting estimates and judgments (continued)

b) Classification of financial instruments

The Bank applies significant judgment in assessing the classification of its financial instruments and especially, in the below areas:

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Bank’s business objectives. In assessing the business model for financial instruments, the Bank performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future, Judgment is exercised in determining the effect of sales to a “hold to collect” business model depending on their objective and their acceptable level and frequency (whether sales are more than infrequent but insignificant in value, or infrequent but significant in value).

Contractual cash flow characteristics test (SPPI test)

The Bank performs the SPPI assessment of loans and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Units and Finance and control Division when considering whether certain contractual features significantly affect future cash flows.

c) 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.

d) 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.

e) Deferred tax assets and liabilities

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax credits can be utilized. The Bank’s management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning strategy.

3. Critical accounting estimates and judgments (continued)

The recognized deferred tax liability represents income taxes obligation arising from temporary difference between book expenses and tax deductions recorded on the balance sheet which will be paid in a future accounting period.

f) Impairment of non-financial assets

The Bank monitors and annualy assesses the carrying amounts of the Bank's intangible assets and property, plant and equipment and assesses whether it is necessary to perform impairment of fixed and intangible assets in its books. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires from management to make judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

g) Useful lives of intangible assets, property, plant and equipment

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions that are basis for determination of useful life.

h) Fair value of financial assets and liabilities

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of financial instruments that are not quoted in an active market are determined by using other valuation techniques that include the use of valuation models. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using other valuation techniques.

The valuation models used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement.

Valuation models are used mainly to value over-the-counter derivatives and securities measured at fair value.

3. Critical accounting estimates and judgments (continued)

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used, and are calibrated to ensure that outputs reflect actual data and comparative market prices. The main assumptions and estimates, considered by management when applying a valuation model include:

- the likelihood and expected timing of future cash flows;
- the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
- judgment to determine what model to use in order to calculate fair value.

To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates to reflect uncertainties in fair values resulting from the lack of market data inputs. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available. However, in most cases there will be some historical data on which to base a fair value.

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.

i) Retirement and other post-employment benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information is disclosed in Note 34.

4. Risk management policies

Due to its activities, the Bank is exposed to a number of financial risks, such as credit risk, market risk (including currency and interest rate risk), liquidity and operational risks. The Bank's overall risk management strategy seeks to minimize any potential adverse effects on its financial performance, financial position and cash flows.

The Bank acknowledges that taking risks is an integral part of its operations in order to achieve its business objectives. Therefore, the Bank's management sets adequate mechanisms to identify those risks at an early stage and assesses their potential impact on the achievement of these objectives.

Due to the fact that economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms are set in a manner that enables the Bank to identify and deal with the risks associated with those changes. The Bank's structure, internal processes and existing control mechanisms ensure both the independence principle and the exercise of sufficient supervision.

The Bank's Management considers effective risk management as a top priority, as well as a major competitive advantage, for the organization. As such, the Bank has allocated significant resources for upgrading its policies, methods and infrastructure, in order to ensure compliance with the requirements of the National Bank of Serbia (NBS), the guidelines of the Basel Committee for Banking Supervision and the best international banking practices. The Bank implements a well-structured credit approval process, independent credit reviews and effective risk management policies for credit, market, liquidity and operational risk. The risk management policies implemented by the Bank are reviewed annually.

The Bank's risk and capital management strategies, which have been formally documented, outline the Bank's overall direction regarding risk and capital management issues, the risk management mission and objectives, risk definitions, risk management principles, risk appetite framework, risk governance framework, strategic objectives and key management initiatives for the improvement of the risk management framework in place.

The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via Risk Appetite Policy, which includes specific tolerance levels. The objectives are to support the Bank's business growth, balance a strong capital position with higher returns on equity and to ensure the Bank's adherence to regulatory requirements.

Risk appetite that is clearly communicated throughout the Bank, determines risk culture and forms the basis on which risk policies and risk limits are established.

Risk Committee (RC)

The Risk Committee (RC) is a committee of the BoD and its task is to assist the BoD to ensure that the Bank has a well-defined risk and capital strategy in line with its business plan and an adequate and robust risk appetite.

The RC assesses the Bank's risk profile, monitors compliance with the approved risk appetite and risk tolerance levels and ensures that the Bank has developed an appropriate risk management framework with appropriate methodologies, modeling tools, data sources and sufficient and competent staff to identify, assess, monitor and mitigate risks.

The RC consists of four members, meets at least on a quarterly basis and reports to the BoD on a quarterly basis and on ad hoc instances if it is needed.

4. Risk management policies (continued)

Risk Management Division

The Bank's Risk Management Division which is headed by the Chief Risk Officer (CRO), operates independently from the business units and is responsible for the monitoring, measurement and management of credit, market, operational and liquidity risks of the Bank. It comprises of the Credit Risk Department, the Credit Control Department, the Market Risk Department, the Operational Risk Department, the Risk Modeling Department, the Integrated Risk Management Department and the Data Management Unit.

Troubled Assets Committee (TAC) and Troubled Assets Sector (TAS)

The Troubled Assets Committee (TAC) has been established in order to provide strategic guidance and monitoring of the troubled assets of Eurobank ensuring independence from business and compliance with the requirements of the National Bank of Serbia. In particular, the main competencies that have been delegated to TAC relate to the monitoring of loans in arrears and the management of non-performing loans, the determination and implementation of the troubled assets' policy, as well as approving and assessing the sustainability of the forbearance and closure procedure measures.

The Troubled Assets Sector (TAS) is responsible for the management of the Bank's troubled assets portfolio, for the whole process, from the pre-delinquency status in case of high exposures with increased credit risk, up to legal workout. It ensures close monitoring, tight control and course adjustment taking into account the continuous developments in the macro environment, the regulatory and legal requirements, the international best practices and new or evolved internal requirements.

TAS comprises the Retail Collection Division, the NPL Department and the Strategy and Policies Department. TAS structure is completely segregated from the Bank's business units both in terms of account management, as well as credit approval process, which ensures transparency, flexibility, better prioritization and management accountability and shifts the management from bad debt minimization to bad debt value management.

TAS cooperates with Risk Management Division to reach a mutual understanding of the implemented practices and to develop appropriate methodologies for the assessment of risks that may be inherent in any type of forbearance and, generally, troubled assets strategy deployment for all portfolios managed.

4.1. 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).

4.1.1. Management of credit risk

The Bank approves loans in accordance with its 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.

4. Risk management policies (continued)

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.

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/scoring) policy. Ratings and scores are used to provide an objective and consistent assessment of client's financial standing and creditworthiness and to support credit decision. Ratings are used in the calculation of the expected credit loss (credit risk loss allowance). A model which incorporates financial and qualitative variables is implemented for corporate clients while behavioural models are implemented for retail clients. Corporate ratings are subject to regular reviews and retail ratings are updated monthly. In addition, an application scorecard is in place, as one of the key elements of loan approval process in Consumer segment. The rating system is maintained by the Risk Modelling Department.

4. Risk management policies (continued)

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.

The Bank has developed and adopted a credit policy for each lending business unit. Each credit policy of the Bank (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.

The 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,

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, relevant decisions of the National bank of Serbia and internal regulatory documents,

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.

4. Risk management policies (continued)

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 Committee 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 loss allowances, which arise from loans and off-balance sheet exposures. The levels of the loss allowance are related to the risk grade of the placement.

Rating system for wholesale (corporate) clients

The rating of the borrower (and not the credit facility) is based on the following parameters:

- Financials,
- Sector,
- Management,
- Operations.

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. Credit conversion factors are applied in the process of loss allowance calculation.

4. Risk management policies (continued)

4.1.2. Credit losses policy

The Bank uses expected credit loss approach for impairment calculation and distinguishes between 12-month expected credit losses and lifetime expected credit losses. Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk of the financial instrument since initial recognition (or the commitment date).

Total portfolio of the Bank is allocated to an appropriate stage (stage 1-3), based on which adequate provisions (ECL: expected credit loss) are calculated and posted. Financial assets which are considered not to have experienced a significant increase in credit risk are considered to be in 'stage 1', financial assets which are considered to have experienced a significant increase in credit risk are allocated in 'stage 2', while financial assets that are considered to be credit impaired will be in 'stage 3'. For Stage 1 exposures 12-month ECL are recognized while for stage 2 and stage 3 exposures lifetime ECL are recognized.

Allocation of Exposures to Stages

The Bank classifies in Stage 2 a financial asset which has experienced a significant increase in credit risk since initial recognition (SICR). In assessing SICR, the Bank uses following criteria:

- absolute thresholds on the 12-month probability of default;
- watch list status;
- forbearance;
- 30 days past due (current and historical in the last 12 months).

Definition of default

A default is considered to have occured with regard to a particular client when either or both of the following have taken place:

- The Bank considers that the client is unlikely to pay its credit obligations to the Bank, the holding or any of the Bank's related parties in full, without recourse by the Bank to actions such as realising collateral;
- The obligor is past due by more than 90 days on any material credit obligation to the Bank, the holding or any of the Bank's related parties.

The Bank plans to enhance the staging allocation approach, by implementation of PD comparison criteria instead of absolute thresholds on the 12–month PD. Based on the analysis which the Bank has performed with data for end of 2018, this change of the approach would have immaterial effect on loss allowance. Previously stated proves the adequacy of absolute thresholds on the 12-month PD which are currently in use.

4. Risk management policies (continued)

The Bank considers all non-performing exposures in accordance with NBS asset quality regulation as credit-impaired and classifies such exposures as stage 3. Therefore, besides objective criterion of 90 days past due, the Bank uses the existence of unlikeness to pay (UTP) criteria and criteria for non-performing forborne status (prescribed in NBS regulation) as Stage 3 criteria.

The Bank classifies all remaining financial assets (which are not classified as stage 2 or 3) as stage 1.

Transition among stages is allowed based on meeting condition of the given stage (conditions for curing in the case of forborne exposures, conditions for removing from the watch list in the case of watch list exposures, 12 months period in the case of exposures for which historical days past due is the staging trigger).

Measurement of expected credit losses

Expected Credit Losses are estimate of credit losses that the Bank would expect to experience over the period in which it is exposed to credit risk from a financial instrument. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of a financial instrument and the cash flows that the Bank expects to receive discounted at the EIR of the same instrument.

For the purposes of measuring ECLs, the Bank estimates expected cash shortfalls, which reflect the cash flows expected from cash recoveries and collateral liquidation and other credit enhancements that are part of the contractual terms of the same lending arrangement and are not recognized separately. The Bank considers that the estimates of expected cash shortfalls on a collateralized lending arrangement essentially reflect the amount and timing of cash flows that are expected to recover from foreclosure on the collateral less the discounted costs of obtaining and selling the collateral.

The amount of impairment loss is calculated as the difference between the amortized cost of the financial instrument and the present value of estimated future cash flows discounted with the financial instrument effective interest rate.

The Bank performs assessment of loss allowance on an individual basis or on a collective basis. The Bank measures ECLs on a collective basis for portfolios where less borrower – specific information is available such as retail exposures and exposures to small – sized enterprises.

The Bank performs individual assessment for:
- Stage 3 corporate clients which are under responsibility of NPL Department,
- Individually significant Stage 3 retail clients (with exposure above EUR 750 thousand),
- Individually significant specialized lending exposures (with exposure above EUR 750 thousand).

For all other instruments the Bank calculates ECLs on collective basis.

Collective assessment

The Bank segments its financial instruments on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in risk parameters.

4. Risk management policies (continued)

ECLs are 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. 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).

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. For financial instruments with contractual cash flows (mortgage loans, investment loans, cash credits etc.) EAD is calculated based on the current repayment schedule, Estimation of the EAD for off-balance positions, such as guarantees and loan commitments, is based on the regulatory credit conversion factors with the difference that minimal possible credit conversion factor is 20%.

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. The Bank uses point-in-time unbiased PDs. A model which incorporates financial and qualitative variables is implemented for corporate clients while behavioural models are implemented for retail clients. Corporate ratings are subject to regular reviews and retail ratings are updated monthly.

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. In the calculation of the LGD, the Bank separately observes collections and costs from real estate collateral sales and collections from other sources.

In Corporate segment, the forward looking information is included through two macroeconomic indicators (related to EUR/RSD exchange rate and unemployment rate as published by the National bank of Serbia), which proved to be relevant. On the other hand in Retail segment, given the stability of recently observed default rates, as well as expectations regarding macroeconomic indicators development (stable, or moderately optimistic), the inclusion of macroeconomic components would not have a material effect on loss allowance, which is confirmed in the process of validation.

Individual assessment

Individual assessment is performed at the financial instrument level. The Bank takes into consideration borrower's specific information, both qualitative and quantitative factors, in order to calculate the final impairment amount.

Individual assessment for non-Stage 3 specialized lending exposures includes individual assessment of PD and LGD parameters and it is performed at least once in a year. Individual assessment for all other clients is performed at least quarterly. The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc.

4. Risk management policies (continued)

In order to calculate expected credit loss different scenarios have been introduced to assess future cash flows (weighted by different probabilities). Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is as difference between total exposure and the present value of expected future cash flows that expects to collect.

4.1.3. 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:

- residential real estate and commercial real estate;
- deposits;
- guarantees and letters of support;
- pledge over movable property (e.g. equipment, vehicles);
- pledge over securities (bonds, shares or ownership stakes);
- assignment of receivables;
- assignment of insurance policies.

For exposures, other than loans to customers (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

Valuation principles of collaterals

In defining the maximum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility is based on the following factors:

- the collateral's market value, as defined in the national and international standards;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

The Bank performs collaterals' valuation in accordance with its processes and policies. With the exception of special cases (e.g. syndicated loans), the real estate collaterals of all units are valued by Eurobank Property Services, which employs qualified appraisers based on predefined criteria (qualifications and expertise). All appraisals take into account factors such as the region, age and marketability of the property, and are further reviewed and countersigned by experienced staff. The valuation methodology employed is based on national valuation standards, RICS and International Valuation Standards (IVS), while quality controls are in place, such as reviewing mechanisms, independent sample reviews by independent well established valuation companies.

In order to re-evaluate and monitor the valuation of property held as collateral, the Bank uses the Residential Property Index, physical inspection and desktop valuation, depending on the performance status and the balance of the loan.

4. Risk management policies (continued)

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasizes the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

4.1.4. 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, focusing on clients 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 corporate customers, the review frequency depends on their rating.

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.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Overview of balance sheet items exposed to credit risk

Balance sheet items and their respective credit risk exposures as at 31 December 2018 and as at 31 December 2017 are presented in the below table:

	31 December 2018		*(restated)* 31 December 2017	
	Total, of which:	**Credit risk exposure**	**Total, of which:**	**Credit risk exposure**
Cash and assets held with the central bank	18,922,770	15,128,152	18,005,519	15,525,115
Less: Impairment allowance	*(216)*	*(216)*	-	-
	18,922,554	**15,127,936**	**18,005,519**	**15,525,115**
Pledged financial assets	1,523,992	1,523,992	3,110,300	3,110,300
	1,523,992	**1,523,992**	**3,110,300**	**3,110,300**
Derivative financial instruments	51,465	51,465	11,048	11,048
	51,465	**51,465**	**11,048**	**11,048**
Securities	10,822,020	10,822,020	10,249,726	10,249,726
Less: Impairment allowance	*(12,902)*	*(12,902)*	-	-
	10,809,118	**10,809,118**	**10,249,726**	**10,249,726**
Loans and deposits to banks and other financial institutions	15,887,437	15,887,437	14,447,514	14,447,514
Less: Impairment allowance	*(2,279)*	*(2,279)*	*(144,082)*	*(144,082)*
	15,885,158	**15,885,158**	**14,303,432**	**14,303,432**
Loans and advances to customers	121,463,204	121,461,684	114,663,993	114,663,993
Less: Impairment allowance	(5,321,053)	*(5,321,053)*	*(9,332,764)*	*(9,332,764)*
	116,142,151	**116,140,631**	**105,331,229**	**105,331,229**

All amounts are expressed in 000 RSD unless stated otherwise

	31 December 2018		(restated) 31 December 2017	
	Total, of which:	**Credit risk exposure**	**Total, of which:**	**Credit risk exposure**
Investments in associates	58,500	-	58,479	-
Less: Impairment allowance	*(22,425)*	-	*(14,798)*	-
	36,075	**-**	**43,681**	-
Intangible assets	4,625,635	-	4,168,423	-
Less: Impairment allowance	*(2,464,109)*	-	*(2,223,533)*	-
	2,161,526	**-**	**1,944,890**	**-**
Property plant and equipment	5,720,507	-	5,509,899	-
Less: Impairment allowance	*(2,343,672)*	-	*(1,926,747)*	-
	3,376,835	**-**	**3,583,152**	**-**
Other assets	714,042	292,265	1,178,999	342,400
Less: Impairment allowance	*(133,228)*	*(133,228)*	*(151,549)*	*(151,549)*
	580,814	**159,037**	**1,027,450**	**190,851**
Total assets	**169,489,688**	**159,697,337**	**157,610,427**	**148,721,701**
Off-balance sheet items	322,281,291	30,115,838	288,839,452	26,666,626
Less: Provisions for off-balance sheet items	*(53,393)*	*(53,393)*	*(243,374)*	*(243,374)*
Total off-balance sheet items	**322,227,898**	**30,062,445**	**288,596,078**	**26,423,252**
Total balance sheet and off-balance sheet	**491,717,586**	**189,759,782**	**446,206,505**	**175,144,953**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Financial assets exposed to credit risk

The table below represents the Bank's maximum credit risk exposure as at 31 December 2018 and 31 December 2017 respectively, without taking account of any collateral.

	31 December 2018	*(restated)* 31 December 2017
Credit risk exposure relating to on balace sheet assets:		
Cash and assets held with the central bank	15,128,152	15,525,115
Less: Impairment allowance	(216)	-
	15,127,936	**15,525,115**
Derivative financial instruments	51,465	11,048
Loans and deposits to banks and other financial institutions	15,887,437	14,447,514
Less: Impairment allowance	(2,279)	(144,082)
	15,885,158	**14,303,432**
Financial instruments at fair value through profit or loss:		
Shares	27,761	22,230
Bonds	87,957	311,292
	115,718	**333,522**
Financial instruments at amortized cost		
Bonds	12,230,294	13,026,504
Less: Impairment allowance	(12,902)	-
	12,217,392	**13,026,504**
Loans and advances to customers:	121,461,684	114,663,993
- Corporate	50,960,990	46,796,973
- SBB	8,663,168	10,757,184
- Mortgage	17,966,200	18,852,090
- Consumer	43,871,326	38,257,746
Less: Impairment allowance	(5,321,053)	(9,332,764)
	116,140,631	**105,331,229**
Other assets	292,265	342,400
Less: Impairment allowance	(133,228)	(151,549)
	159,037	**190,851**
Total on balance sheet items	**159,697,337**	**148,721,701**
Credit risk exposures relating to off-balance sheet items:		
Guarantees and other commitments	30,115,838	26,666,626
Less: Provisions	(53,393)	(243,374)
Total off-balance sheet items	**30,062,445**	**26,423,252**
Total balance sheet and off-balance sheet	**189,759,782**	**175,144,953**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Regarding securities and exposures presented under loans and receivables to banks and other financial institutions and Cash and assets held with the central bank, the Bank calculates impairment for the following instruments:

- Nostro accounts held with NBS and other banks,
- Mandatory reserve (RSD and FCY) the Bank keeps with NBS,
- Interbank placements, including collaterals (e.g. independent amount for CIRS),
- Reverse repo with NBS and other banks,
- Debt securities measured at amortized cost under IFRS 9,
- Fee and other claims from banks and other financial institutions.

Exposure toward National bank of Serbia (e.g. Cash, Repo, mandatory reserve) is considered as an exposure toward the Republic of Serbia, as well as all debt securities measured at amortized cost. Probability of default is determined based on expected default frequency (EDF) model. All above mentioned exposures are classified in Stage 1 as of 31 December 2018.

Stock and movement in the exposure and loss allowance in 2018

Overview of the balance and movement in the exposure for credit risk in 2018 in total is presented in tables below:

Loans and advances to customers at amortized cost

	December 31, 2018				
In RSD thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
Loans and advances to customers at amortised cost					
Balance at 1 January	86,729,416	10,659,559	17,275,018	-	**114,663,993**
New financial assets originated or purchased	50,395,369	2,144,443	601,583	-	**53,141,395**
Transfer to Stage 1	3,546,635	(3,278,226)	(268,409)	-	**-**
Transfer to Stage 2	(3,668,509)	4,527,233	(858,724)	-	**-**
Transfer to Stage 3	(839,691)	(1,292,095)	2,131,786	-	**-**
Remeasurement impact of transfers between 12M/Lifetime ECLs during the period	(564,446)	(633,301)	(190,412)	-	**(1,388,159)**
Repayment	(25,179,582)	(1,471,663)	(2,330,360)	-	**(28,981,605)**
Amounts written off	(90)	(1,289)	(4,398,966)	-	**(4,400,345)**
Foreign exchange and other movements	(10,220,571)	(787,009)	(566,015)	-	**(11,573,595)**
Balance at 31 December	**100,198,531**	**9,867,652**	**11,395,501**	**-**	**121,461,684**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

The overview of the balance and movement in the loss allowance for credit risk in 2018 in total and by client type is presented in tables below:

Loans and advances to banks and other financial institutions

	2018				2017
In RSD thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances ***to banks and other financial institutions*** **at amortised cost**					
Balance at 1 January	3,797	4	5,955	9,756	**80,803**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	22	(1)	-	21	66,704
New financial assets originated or purchased	12,686	-	-	12,686	-
Financial assets that have been derecognized	(14,309)	-	(5,877)	(20,186)	-
Write-offs	-	-	-	-	-
Foreign exchange and other movements	79	-	(77)	2	(3,425)
Balance at 31 December	**2,275**	**3**	**1**	**2,279**	**144,082**

Loans and advances to customers at amortized cost

	December 31, 2018					*(restated)* December 31, 2017
In RSD thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**	**Total**
Loans and advances to customers at amortised cost						
Balance at 1 January 2018	**344,077**	**426,663**	**8,898,419**	**-**	**9,669,159**	**20,244,847**
Transfer to Stage 1	382,985	(314,559)	(68,426)	-	-	-
Transfer to Stage 2	(98,775)	383,955	(285,180)	-	-	-
Transfer to Stage 3	(15,919)	(203,034)	218,953	-	-	-
Net remeasurement of loss allowance	(485,509)	123,744	2,004,619	-	1,642,854	1,542,161
New loss allowance	294,727	64,774	36,745	-	396,246	-
Financial assets that have been derecognized	(85,983)	(77,233)	(1,260,885)	-	(1,424,101)	-
Write-offs	(9)	(1)	(4,380,603)	-	(4,380,613)	(11,578,469)
Unwind of discount	-	-	(614,096)	-	(614,096)	-
Foreign exchange and other movements	222	254	31,128	-	31,604	(875,775)
Balance at 31 December	**335,816**	**404,563**	**4,580,674**	**-**	**5,321,053**	**9,332,764**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Loans and advances to customers at amortized cost - retail customers

	December 31, 2018				
In RSD thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
Loans and advances to customers at amortised cost - Retail customers					
Balance at 1 January	**214,627**	**327,633**	**4,191,086**	**-**	**4,733,346**
Transfer to Stage 1	353,023	(293,513)	(59,510)	-	-
Transfer to Stage 2	(92,948)	352,313	(259,365)	-	-
Transfer to Stage 3	(10,952)	(186,885)	197,837	-	-
Net remeasurement of loss allowance	(345,609)	212,393	1,378,113	-	1,244,897
New loss allowance	123,662	46,898	29,187	-	199,747
Financial assets that have been derecognized	(48,387)	(75,483)	(93,462)	-	(217,332)
Write-offs	(9)	(1)	(2,164,513)	-	(2,164,523)
Unwind of discount	-	-	(423,189)	-	(423,189)
Foreign exchange and other movements	435	422	27,818	-	28,675
Balance at 31 December	**193,842**	**383,777**	**2,824,002**	**-**	**3,401,621**

Loans and advances to customers at amortized cost - corporate customers

	December 31, 2018				
In RSD thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
Loans and advances to customers at amortised cost - Corporate customers					
Balance at 1 January	**129,450**	**99,030**	**4,707,333**	**-**	**4,935,813**
Transfer to Stage 1	29,962	(21,046)	(8,916)	-	-
Transfer to Stage 2	(5,827)	31,642	(25,815)	-	-
Transfer to Stage 3	(4,967)	(16,149)	21,116	-	-
Net remeasurement of loss allowance	(139,900)	(88,649)	626,506	-	397,957
New loss allowance	171,065	17,876	7,558	-	196,499
Financial assets that have been derecognized	(37,596)	(1,750)	(1,167,423)	-	(1,206,769)
Write-offs	-	-	(2,216,090)	-	(2,216,090)
Unwind of discount	-	-	(190,907)	-	(190,907)
Foreign exchange and other movements	(213)	(168)	3,310	-	2,929
Balance at 31 December	**141,974**	**20,786**	**1,756,672**	**-**	**1,919,432**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Securities, cash and balances with central bank and other assets

In RSD thousands	December 31, 2018	*(restated)* December 31, 2017 total
Debit investment securities at amortised cost		
Balance at 1 January	**22,148**	-
New financial assets originated or purchased	(9,247)	-
Foreing exchange and other movements	2	-
Balance at 31 December	**12,903**	**-**
Cash and balances with central bank		
Balance at 1 January	**421**	-
Net remeasurement of loss allowance	(205)	-
Balance at 31 December	**216**	**-**
Other assets		
Balance at 1 January	**153,588**	**157,720**
Net remeasurement of loss allowance	(657)	(288)
Write-offs	(19,581)	(381)
Foreing exchange and other movements	(122)	(5,502)
Balance at 31 December	**133,228**	**151,549**
Loan commitmens and financial guarantee contracts		
Balance at 1 January	**206,691**	**229,217**
Net remeasurement of loss allowance	56,492	23,403
New loan commitments and financial guarantees issued	(209,673)	-
Foreing exchange and other movements	(117)	(9,246)
Balance at 31 December	**53,393**	**243,374**

4.1.5. Loans and advances

Loans and advances to customers are presented in the following table, per segment:

Loans and advances to customers measured at amortized cost:	**121,461,684**
- Corporate	50,960,990
- SBB	8,663,168
- Mortgage	17,966,200
- Consumer	43,871,326
Loans and advances to customers measured at fair value	**1,520**
- Corporate	1,520
Total	**121,463,204**

Loans and advances measured at fair value include accrued interest from derivative contracts with clients from corporate segment. All further tables related to credit risk exposure and portfolio quality are prepared without including this amount.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Credit portfolio quality

The following tables present 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 2018:

				Stage 3		Total gross
		Stage 1	Stage 2	Individual	Collective	amount 2018
Retail Lending	**Internal credit rating**					
- Mortgage	Strong	9,387,472	-	-	-	**9,387,472**
	Satisfactory	3,641,747	-	-	-	**3,641,747**
	Watch list	-	2,218,513	-	-	**2,218,513**
	Impaired (Defaulted)	-	-	-	2,718,468	**2,718,468**
	loss allowance	(19,831)	(23,570)	-	(384,093)	**(427,494)**
- Consumer	Strong	8,704,081	-	-	-	**8,704,081**
	Satisfactory	25,702,646	-	-	-	**25,702,646**
	Watch list	-	6,248,696	-	-	**6,248,696**
	Impaired (Defaulted)	-	-	-	3,215,903	**3,215,903**
	loss allowance	(165,663)	(350,395)	-	(1,583,859)	**(2,099,917)**
- Small business	Strong	1,343,151	-	-	-	**1,343,151**
	Satisfactory	3,963,953	-	-	-	**3,963,953**
	Watch list	-	480,730	-	-	**480,730**
	Impaired (Defaulted)	-	-	-	2,875,334	**2,875,334**
	loss allowance	(29,789)	(20,537)	-	(1,658,862)	**(1,709,188)**
Corporate Lending						
- Large corporate	Strong	17,759,766	-	-	-	**17,759,766**
	Satisfactory	12,060,133	-	-	-	**12,060,133**
	Watch list	-	665,544	-	-	**665,544**
	Impaired (Defaulted)	-	-	1,338,493	-	**1,338,493**
	loss allowance	(67,366)	(8,988)	(271,811)	-	**(348,165)**
- SMEs	Strong	5,655,039	-	-	-	**5,655,039**
	Satisfactory	11,980,543	-	-	-	**11,980,543**
	Watch list	-	254,169	-	-	**254,169**
	Impaired (Defaulted)	-	-	1,237,008	10,295	**1,247,303**
	loss allowance	(53,166)	(1,075)	(678,168)	(3,880)	**(736,289)**
	Total loans	**100,198,531**	**9,867,652**	**2,575,501**	**8,820,000**	**121,461,684**
	Total loss allowance	**(335,815)**	**(404,565)**	**(949,979)**	**(3,630,694)**	**(5,321,053)**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Credit Related Commitments	Internal credit rating	Stage 1	Stage 2	Stage 3 Individual	Stage 3 Collective	Total gross amount 2018
-Commitments	Strong	7,557,025	-	-	-	**7,557,025**
	Satisfactory	11,308,149	-	-	-	**11,308,149**
	Watch list	-	222,254	-	-	**222,254**
	Impaired (Defaulted)	-	-	-	22,005	**22,005**
	loss allowance	(19,928)	(2,054)	-	(5,874)	**(27,856)**
-Guarantees	Strong	4,840,669	-	-	-	**4,840,669**
	Satisfactory	3,993,107	-	-	-	**3,993,107**
	Watch list	-	99,069	-	-	**99,069**
	Impaired (Defaulted)	-	-	2,057,347	5,042	**2,062,389**
	loss allowance	(22,533)	(1,778)	-	(1,223)	**(25,534)**
-Letters of credit	Strong	3,029	-	-	-	**3,029**
	Watch list	-	8,142	-	-	**8,142**
	loss allowance	(3)	-	-	-	**(3)**
	Total off balance	**27,701,979**	**329,465**	**2,057,347**	**27,047**	**30,115,838**
	Total loss allowance	**(42,464)**	**(3,832)**	**-**	**(7,097)**	**(53,393)**

Overview of other assets per stages as at December 31, 2018

In RSD thousands	**Stage 1**	**Stage 2**	**Stage 3**	**Total as at 31 December 2018**
Other assets gross	160,011	100	132,154	292,265
Less: Impairment allowance	*(1,462)*	*(5)*	*(131,761)*	(133,228)
Total	**158,549**	**95**	**393**	**159,037**

All amounts are expressed in 000 RSD unless stated otherwise

Portfolio quality per types of placements based on the previous Bank classification system as at 31 December 2017 is presented in the table below:

	Neither past due nor impaired	Past due but not impaired	Impaired	*(restated)* Total 2017
- Corporate	41,171,173	337,021	5,288,779	46,796,973
- SBB	5,147,867	289,067	5,320,250	10,757,184
- Mortgage	15,227,853	352,260	3,271,977	18,852,090
- Consumer	32,242,417	2,698,273	3,317,056	38,257,746
- Guarantees and other commitments	23,991,651	10,866	2,664,109	26,666,626
Total	**117,780,961**	**3,687,487**	**19,862,171**	**141,330,619**

Exposure toward financial institutions as of 31 December 2017 was 9,928,055. The whole amount belonged to "neither past due nor impaired" cathegory.

Portfolio quality classification is based on the following criteria:

Segment	Strong	Satisfactory	Watch list	Impaired (Defaulted)
Corporate	Stage 1 Internal Credit Rating 1-4	Stage 1 Internal Credit Rating 5-6	Stage 2 Internal Credit Rating 7	Stage 3
Retail	Stage 1 Rating (A; BBB)	Stage 1 Rating (BBB-; CCC+)	Stage 2 Rating (CCC – C)	Stage 3

The table below provides data regarding 12-month weighted average PD per portfolio segments (only data for 2018 are presented, considering that IFRS 9 is in place starting from 1 January 2018):

	Internal credit rating	12-month weighted - average PD
Retail Lending		
- Mortgage	Strong	0.63%
	Satisfactory	2.04%
	Watch list	8.17%
- Consumer	Strong	0.86%
	Satisfactory	2.00%
	Watch list	10.89%
- Small business	Strong	0.61%
	Satisfactory	2.29%
	Watch list	8.56%
Corporate Lending	Strong	0.42%
	Satisfactory	1.08%
	Watch list	37.44%

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Overdue analysis of total loans and placements per segment as at 31 December 2018:

	Retail lending			Wholesale lending			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Up to 30 days	52,743,049	7,577,526	2,563,223	47,455,482	919,713	798,378	112,057,371
31 to 90 days	-	1,370,413	697,893	-	-	-	2,068,306
91 to 180 days	-	-	1,044,009	-	-	181,806	1,225,815
181 to 360 days	-	-	629,571	-	-	66,006	695,577
More than 360 days	-	-	3,875,010	-	-	1,539,605	5,414,615
Total Gross Carrying Amount	**52,743,049**	**8,947,939**	**8,809,706**	**47,455,482**	**919,713**	**2,585,795**	**121,461,684**
Loss Allowance	(215,283)	(394,502)	(3,626,814)	(120,532)	(10,063)	(953,859)	(5,321,053)
Net Carrying amount at 31 December	**52,527,766**	**8,553,437**	**5,182,892**	**47,334,950**	**909,650**	**1,631,936**	**116,140,631**
Guarantees and other commitments	**9,960,961**	**187,831**	**22,083**	**17,741,017**	**141,635**	**2,062,311**	**30,115,838**
Less: Provisions	(14,254)	(2,008)	(5,874)	(28,211)	(1,823)	(1,223)	(53,393)
Total off-balance sheet items	**9,946,707**	**185,823**	**16,209**	**17,712,806**	**139,812**	**2,061,088**	**30,062,445**

	Retail lending									
	Mortgage			Consumer			Small business			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Up to 30 days	13,029,218	2,020,484	1,177,715	34,406,727	5,107,907	976,522	5,307,104	449,135	408,986	62,883,798
31 to 90 days	-	198,029	273,333	-	1,140,789	366,427	-	31,595	58,133	2,068,306
91 to 180 days	-	-	429,571	-	-	521,911	-	-	92,527	1,044,009
181 to 360 days	-	-	180,169	-	-	363,562	-	-	85,840	629,571
More than 360 days	-	-	657,681	-	-	987,481	-	-	2,229,848	3,875,010
Total Gross Carrying Amount	**13,029,218**	**2,218,513**	**2,718,469**	**34,406,727**	**6,248,696**	**3,215,903**	**5,307,104**	**480,730**	**2,875,334**	**70,500,694**
Cumulative Loss Allowance	(19,831)	(23,570)	(384,093)	(165,663)	(350,395)	(1,583,859)	(29,789)	(20,537)	(1,658,862)	(4,236,599)
Net Carrying amount at 31 December	**13,009,387**	**2,194,943**	**2,334,376**	**34,241,064**	**5,898,301**	**1,632,044**	**5,277,315**	**460,193**	**1,216,472**	**66,264,095**

All amounts are expressed in 000 RSD unless stated otherwise

	Wholesale lending						
	Large Corporate			SMEs			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Up to 30 days	29,819,900	665,544	184,900	17,635,582	254,169	613,478	49,173,573
31 to 90 days	-	-	-	-	-	-	-
91 to 180 days	-	-	-	-	-	181,806	181,806
181 to 360 days	-	-	66,006	-	-	-	66,006
More than 360 days	-	-	1,087,586	-	-	452,019	1,539,605
Total Gross Carrying Amount	**29,819,900**	**665,544**	**1,338,492**	**17,635,582**	**254,169**	**1,247,303**	**50,960,990**
Cumulative Loss Allowance	(67,366)	(8,988)	(271,811)	(53,166)	(1,075)	(682,049)	(1,084,454)
Net Carrying amount at 31 December	**29,752,534**	**656,556**	**1,066,682**	**17,582,416**	**253,094**	**565,254**	**49,876,536**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

As a comparative data, the following table shows overdue analysis of total loans and placements per segment as at 31 December 2017.

	(restated) 31 December 2017				
	Mortgage	**Consumer**	**Small business**	**Corporate**	**Total**
Up to 30 days	16,830,598	34,740,057	5,966,407	42,456,026	**99,993,088**
31 to 90 days	309,191	1,224,889	97,302	106,633	**1,738,015**
91 to 180 days	565,267	355,654	77,148	234,813	**1,232,882**
181 to 360 days	294,214	309,145	97,052	471,780	**1,172,191**
More than 360 days	852,820	1,628,001	4,519,275	3,527,721	**10,527,817**
Total Gross Carrying Amount	**18,852,090**	**38,257,746**	**10,757,184**	**46,796,973**	**114,663,993**
Cumulative Loss Allowance	(496,062)	(2,127,295)	(3,464,520)	(3,244,887)	(9,332,764)
Net Carrying amount at 31 December	**18,356,028**	**36,130,451**	**7,292,664**	**43,552,086**	**105,331,229**

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. Such loans are classified as forborne in accordance with the NBS regulation.

The following table shows forborne loans per portfolio:

	31 December 2018		*(restated)* 31 December 2017	
	Gross Carrying Amount	**ECL Loss allowance**	**Gross Carrying Amount**	**Impairment allowance**
Retail Lending	**5,376,741**	**(1,649,087)**	**7,494,960**	**(2,548,529)**
- Mortgage	1,710,686	(179,483)	2,269,342	(174,067)
- Consumer	2,010,898	(577,318)	2,330,063	(750,215)
- Small business	1,655,157	(892,286)	2,895,555	(1,624,247)
Corporate Lending	**2,392,638**	**(744,138)**	**4,816,572**	**(2,589,184)**
Total	**7,769,379**	**(2,393,225)**	**12,311,532**	**(5,137,713)**

4. Risk management policies (continued)

Total amount of restructured loans for corporate clients at the end of 2018 amounted to RSD 2,392,638 thousand (allowance for impairment stood at RSD 744,138 thousand). Total amount of restructured loans SBB, Mortgage and Consumer clients amounted to RSD 5,376,741 thousand (allowance for impairment stood at RSD 1,649,086 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 days past due 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,
- 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 Non Performing if there has been more than one additional concession during probation period.

A forborne contract is considered under probation either from the moment of forbearance, if at the time of forbearance it was not classified as non-performing and forbearance did not lead to its being classified as non-performing, or from the moment it was classified as performing.

The forbearance classification shall be discontinued when all the following conditions are met:

- a minimum 2-year probation period has passed from the date the forborne exposure was considered as performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period;
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

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 2018:

Forbearance measures:	**31 December 2018**
Loan term extension	6,098,982
Arrears capitalization	72,106
Reduced payment	633,440
Interest rate reduction	30,038
Interest only	826,714
Grace period	82,265
Other	25,833
Total gross carrying amount	**7,769,378**

The distribution of forborne loans per stage is presented below:

	Total loans & advances	**Forborne loans & advances**	**% of Forborne loans & advances**
Gross carrying amounts:			
Stage 1	100,198,533	-	**0%**
Stage 2	9,867,651	1,250,048	**13%**
Stage 3	11,395,500	6,519,330	**57%**
Total Gross Amount	**121,461,684**	**7,769,378**	**6%**
Cumulative ECL Loss allowance:			
Stage 1	(335,816)	-	
Stage 2	(404,565)	(38,300)	
Stage 3	**(4,580,672)**	**(2,354,924)**	
- Individually assessed	(949,983)	(744,138)	
- Collectively assessed	(3,630,689)	(1,610,786)	
Total ECL Loss allowance	**(5,321,053)**	**(2,393,224)**	**45%**
Total Net carrying amount	**116,140,631**	**5,376,154**	**5%**

4. Risk management policies (continued)

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).

Collateral overview

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

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

31 December 2018	Gross caring amount				Impairment allowance				
	Stage 1	**Stage 2**	**Stage 3**	**Total gross amount**	**Stage 1**	**Stage 2**	**Stage 3**	**Total net amount**	*Collateral value capped to exposure*
Retail Lending	**52,743,050**	**8,947,939**	**8,809,705**	**70,500,694**	**(215,283)**	**(394,502)**	**(3,626,814)**	**66,264,095**	**21,413,328**
- Mortgage	13,029,219	2,218,513	2,718,468	17,966,200	(19,831)	(23,570)	(384,093)	**17,538,706**	
Collateral held for financial assets	12,948,697	2,189,589	2,490,815	17,629,101					17,629,101
- Consumer	34,406,727	6,248,696	3,215,903	43,871,326	(165,663)	(350,395)	(1,583,859)	**41,771,409**	
Collateral held for financial assets	30,520	5,401	1,172	37,093					37,093
- Small business	5,307,104	480,730	2,875,334	8,663,168	(29,789)	(20,537)	(1,658,862)	**6,953,980**	
Collateral held for financial assets	1,681,396	168,299	1,897,439	3,747,134					3,747,134
Wholesale Lending	**47,455,481**	**919,713**	**2,585,796**	**50,960,990**	**(120,532)**	**(10,063)**	**(953,859)**	**49,876,536**	**19,586,986**
- Large corporate	29,819,899	665,544	1,338,493	31,823,936	(67,366)	(8,988)	(271,811)	**31,475,771**	
Collateral held for financial assets	11,223,611	665,722	1,252,202	13,141,535					13,141,535
- SMEs	17,635,582	254,169	1,247,303	19,137,054	(53,166)	(1,075)	(682,048)	**18,400,765**	
Collateral held for financial assets	5,434,318	176,200	834,933	6,445,451					6,445,451
Total	**100,198,531**	**9,867,652**	**11,395,501**	**121,461,684**	**(335,815)**	**(404,565)**	**(4,580,673)**	**116,140,631**	**41,000,314**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

	31 December 2018								
	Gross caring amount				Impairment allowance				
	Stage 1	Stage 2	Stage 3	Total gross amount	Stage 1	Stage 2	Stage 3	Total net amount	*Collateral value capped to exposure*
Guarantees	8,833,776	99,069	2,062,389	**10,995,234**	(22,533)	(1,778)	(1,223)	**10,969,700**	
Letters of credit	3,029	8,142	-	**11,171**	(3)	-	-	**11,168**	
Commitments	18,864,256	222,254	22,005	**19,108,515**	(19,928)	(2,054)	(5,874)	**19,080,659**	
Collateral held for financial assets	2,006,978	74,265	2,061,455	**4,142,698**	-	-	-	-	4,142,698
Credit related Commitments	**27,701,061**	**329,465**	**2,084,394**	**30,114,920**	**(42,464)**	**(3,832)**	**(7,097)**	**30,061,527**	**4,142,698**
Total	**127,899,592**	**10,197,117**	**13,479,895**	**151,576,604**	**(378,279)**	**(408,397)**	**(4,587,770)**	**146,202,158**	**45,143,012**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	LTV
Mortgages	
Less than 50%	4,623,571
50%-70%	5,086,845
71%-80%	3,338,268
81%-90%	2,016,897
91%-100%	1,165,845
101%-120%	851,881
121%-150%	513,952
Greater than 150%	203,982
Total exposure	**17,801,241**

The following table shows comparative view of collateral received:

	Value of collateral received		
	Real Estate	**Financial**	**Total**
Retail Lending	**42,537,416**	**862,894**	**43,400,310**
Mortgage	*34,433,590*	*139,796*	*34,573,386*
Consumer	-	*37,093*	*37,093*
SBB	*8,103,826*	*686,005*	*8,789,831*
Wholesale Lending	**46,287,640**	**690,210**	**46,977,850**
Total 2018	**88,825,056**	**1,553,104**	**90,378,160**
Total 2017	**51,363,800**	**1,524,138**	**52,887,938**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1.6. Securities, treasury bills and other eligible bills

As at 31 December 2018, the Bank has dinar bonds of Republic of Serbia Ministry of Finance in the total amount of RSD 11,960,829 thousand and shares in the total amount of RSD 214 thousand (31 December 2017: RSD 12,131,639 thousand), and the Bank also has foreign currency bonds of Republic of Serbia Ministry of Finance in the amount of RSD 344,723 thousand (31 December 2017: RSD 894,864 thousand) and shares in the amount of RSD 27,343 (31 December 2017: RSD 21,812) – (Note 22). The above mentioned bonds and trading securities are not rated. The rating of country is BB positive based on Standard and Poor's rating.

As of 31 December 2018 part of the RS Ministry of Finance bills in dinars in amount of RSD 1,436,410 thousand and in EUR in amount of RSD 87,582 thousand are used as pledge given as collateral for deposits taken from companies in bankruptcy.

4.1.7. Repossessed collateral

As at 31 December 2018 Bank had no assets that were obtained by taking possession of collateral held as security:

	Carrying amount	
Nature of assets	**31 December 2018**	**31 December 2017**
Residential property	-	6,183

All amounts are expressed in 000 RSD unless stated otherwise

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

Geographical and industry sectors

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

	31 December 2018										
	Serbia			Greece			Other Countries				
	Gross amount			Gross amount			Gross amount				*(restated)*
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	31 December 2018	31 December 2017
Exposure toward financial institutions	**20,124,917**	**-**	**-**	**6,717,592**	**-**	**-**	**4,173,080**	**-**	**-**	**31,015,589**	**9,928,055**
Financial assets at fair value through P&L	**88,375**	**-**	**-**	**-**	**-**	**-**	**27,343**	**-**	**-**	**115,718**	**322,759**
Financial assets at amortized cost	**12,230,295**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,230,295**	**13,048,315**
Retail Lending	**52,721,390**	**8,927,078**	**8,809,682**	**3,640**	**-**	**23**	**18,020**	**20,861**	**-**	**70,500,694**	**67,867,020**
-Mortgage	13,007,602	2,197,652	2,718,468	3,640	-	-	17,977	20,861	-	17,966,200	18,852,090
-Consumer	34,406,684	6,248,696	3,215,880	-	-	23	43	-	-	43,871,326	38,257,746
-Small business	5,307,104	480,730	2,875,334	-	-	-	-	-	-	8,663,168	10,757,184
Wholesale Lending	**47,455,481**	**919,713**	**2,585,796**	**-**	**-**	**-**	**-**	**-**	**-**	**50,960,990**	**46,796,973**
-Commerce and services	32,384,110	739,825	367,362	-	-	-	-	-	-	33,491,297	29,536,982
-Manufacturing	10,694,057	176,699	328,871	-	-	-	-	-	-	11,199,627	11,202,403
-Construction	3,047,316	-	562,731	-	-	-	-	-	-	3,610,047	3,742,135
-Financial institutions	-	-	-	-	-	-	-	-	-	-	4,461
-Private individuals	571,474	3,189	-	-	-	-	-	-	-	574,663	293,584
-Other	758,524	-	1,326,832	-	-	-	-	-	-	2,085,356	2,017,408
Total loans and advances to customers	**100,176,871**	**9,846,791**	**11,395,478**	**3,640**	**-**	**23**	**18,020**	**20,861**	**-**	**121,461,684**	**114,663,993**
Impairment allowance	(349,035)	(404,253)	(4,580,654)	(1,697)	-	(19)	(480)	(312)	-	(5,336,450)	(9,476,817)
Credit related Commitments	**27,109,226**	**327,692**	**2,084,394**	**-**	**-**	**-**	**592,753**	**1,773**	**-**	**30,115,838**	**27,377,463**
Impairment allowance	(34,979)	(3,831)	(7,097)	-	-	-	(7,486)	-	-	(53,393)	(243,373)
Total Gross Carrying Amount	**159,729,684**	**10,174,483**	**13,479,872**	**6,721,232**	**-**	**23**	**4,811,196**	**22,634**	**-**	**194,939,124**	**165,340,585**
Loss Allowance	**(384,014)**	**(408,084)**	**(4,587,751)**	**(1,697)**	**-**	**(19)**	**(7,966)**	**(312)**	**-**	**(5,389,843)**	**(9,720,190)**
Net Carrying amount	**159,345,670**	**9,766,399**	**8,892,121**	**6,719,535**	**-**	**4**	**4,803,230**	**22,322**	**-**	**189,549,281**	**155,620,395**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.2. 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.

4.2.1. 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 identifies, measures, monitors and manages exposure to foreign exchange risk on daily basis.

The Bank manages the exposure to foreign exchange risk in a manner that ensures 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 concentration risk based on open currency position may occur if the total open currency position limit is utilized in only one currency, In order to avoid this risk concentration, the Bank's management and the Risk Committee have defined the maximum allowed open currency position by individual currencies, and the utilization of this limit is monitored by the Bank's management through a weekly report on the Open currency position by currencies prepared and submitted by the Market Risk Department.

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

	At 31 December 2018				At 31 December 2017 *(restated)*			
	Monetary financial assets	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Euros	79,453,348	83,741,543	6,207,312	1,919,117	68,642,988	79,426,348	11,115,207	331,847
CHF	12,025,791	2,660,393	(9,448,011)	(82,613)	13,156,592	2,172,077	(11,040,032)	(55,517)
Other	1,815,046	1,819,065	-	(4,019)	2,286,441	2,193,602	-	92,839
	93,294,185	**88,221,001**	**(3,240,699)**	**1,832,485**	**84,086,021**	**83,792,027**	**75,175**	**369,169**

**Including foreign currency clause*

4. Risk management policies (continued)

4.2.2. 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 identifies, measures, monitors and manages exposure to interest rate risk on monthly basis, in total and per 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.

According to internal methodology for interest rate gap, the Bank projects future cash flows (including future interest) of assets/liabilities with fixed interest rate and off-balance items and allocates them into time buckets according to contractual maturity dates. For items with floating interest rate, principal and future interest (only the part maturing until the next repricing date) is allocated according to repricing date. The Bank calculates early repayment/withdrawal rates taking into account statistical analysis based on historical experience. For all items without contractual repayment schedule, the Bank allocates cash flows into time buckets according to statistical analysis, trend, seasonality and unpredictability factor. Assessment of the deposits stability is based on both statistical analysis and Basel committee guidelines. Future cash flows for loans are reduced by the expected cost of risk (CoR) for each individual segment of the portfolio.

All amounts are expressed in 000 RSD unless stated otherwise

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 and off-balance items at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates, according to the above mentioned methodology:

	Exposure to IRR	Less than 3 months	3-6 months	6-12 months	1-5 year	More than 5 years
31 December 2018						
Total financial assets	173,054,423	122,877,657	9,755,939	7,211,444	24,329,445	8,879,938
Cash and assets held with central bank	18,916,934	8,614,295	1,042,024	2,189,760	4,420,126	2,650,729
Loans and receivables to banks and other financial institutions	15,569,834	15,569,834	-	-	-	-
Loans and receivables to customers	125,224,813	94,234,727	8,520,415	1,857,842	15,070,660	5,541,169
Securities	12,740,624	4,458,801	193,500	3,163,842	4,838,659	85,822
Other asset	602,218	-	-	-	-	602,218
Total financial liabilities	(116,968,066)	(47,755,703)	(12,034,251)	(13,469,272)	(26,514,075)	(17,194,765)
Deposits and other liabilities from banks, other financial institutions and central bank	(13,051,069)	(5,983,795)	(5,714,752)	(1,162,364)	(66,606)	(123,552)
Deposits and other liabilities from customers	(103,105,909)	(40,960,820)	(6,319,499)	(12,306,908)	(26,447,469)	(17,071,213)
Other liabilities	(811,088)	(811,088)	-	-	-	-
Net interest rate gap	**56,086,357**	**75,121,954**	**(2,278,312)**	**(6,257,828)**	**(2,184,630)**	**(8,314,827)**
Effect of derivatives held for risk management	(33,567)	(2,549,930)	2,516,363	-	-	-
Other off-balance asset	(4,536,086)	(3,682,822)	(50,608)	(78,065)	(330,795)	(393,796)
Other off-balance liability	(638,207)	(638,207)	-	-	-	-
Total interest rate gap	**50,878,497**	**68,250,995**	**187,443**	**(6,335,893)**	**(2,515,425)**	**(8,708,623)**

All amounts are expressed in 000 RSD unless stated otherwise

	Exposure to IRR	Less than 3 months	3-6 months	6-12 months	1-5 year	More than 5 years
31 December 2017 ***(restated)***						
Total financial assets	161,873,003	111,109,154	8,552,481	5,432,177	27,421,228	9,357,963
Cash and assets held with central bank	17,998,063	7,861,113	1,179,495	2,799,415	3,398,013	2,760,027
Loans and receivables to banks and other financial institutions	14,118,788	14,118,788	-	-	-	-
Loans and receivables to customers	114,683,604	85,177,493	5,721,813	2,527,762	15,813,723	5,442,813
Securities	13,990,806	3,951,760	1,651,173	105,000	8,209,492	73,381
Other asset	1,081,742	-	-	-	-	1,081,742
Total financial liabilities	(106,681,723)	(46,905,924)	(6,437,405)	(17,044,022)	(19,769,202)	(16,525,170)
Deposits and other liabilities from banks, other financial institutions and central bank	(9,204,461)	(7,187,627)	-	(2,016,834)	-	-
Deposits and other liabilities from customers	(96,779,870)	(39,020,905)	(6,437,405)	(15,027,188)	(19,769,202)	(16,525,170)
Other liabilities	(697,392)	(697,392)	-	-	-	-
Net interest rate gap	**55,191,280**	**64,203,230**	**2,115,076**	**(11,611,845)**	**7,652,026**	**(7,167,207)**
Effect of derivatives held for risk management	75,175	75,175	-	-	-	-
Other off-balance asset	(1,696,544)	(704,036)	(51,034)	(82,450)	(412,904)	(446,120)
Other off-balance liability	(907,123)	(907,123)	-	-	-	-
Total interest rate gap	**52,662,788**	**62,667,246**	**2,064,042**	**(11,694,295)**	**7,239,122**	**(7,613,327)**

For purpose of measurement of interest rate risk, the 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.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.2.3. 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 for 100 basis points on the net interest income and economic value of equity, as well as of the assumed RSD FX rate depreciation for 10%.

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 presented in the following table:

	Sensitivity of income statement 2018				
Interest rate sensitivity	RSD	EUR	CHF	Other	Loss
+100 bps parallel shift					
NII effect	(299,031)	(305,249)	16,605	(8,966)	(613,246)
EVE effect	300,789	(1,092,549)	190,008	(24,835)	(626,587)
Foreign exchange sensitivity					
10% depreciation of RSD		(208,590)	1,278	(326)	(207,638)

(restated)

	Sensitivity of income statement 2017				
Interest rate sensitivity	RSD	EUR	CHF	Other	Loss
+100 bps parallel shift					
NII effect	(274,380)	(300,794)	31,241	(8,975)	(584,149)
EVE effect	423,630	(1,037,582)	244,171	(28,575)	(398,356)
Foreign exchange sensitivity					
10% depreciation of RSD		(72,376)	5,552	(2,153)	(68,977)

4.3. 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.

4. Risk management policies (continued)

In order to perform these activities, attention is mainly 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.

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 a set of short term limits. Following the NBS methodology, the Bank has defined minimum level of liquidity expressed in terms of short term liquidity ratio. For internal methodology purposes, limit framework includes ratios as limit definition of acceptable levels of short term liquidity mismatches.

According to internal methodology for liquidity gap, the Bank projects future cash flows (including future interest) of assets/liabilities and off-balance items and allocates them into time buckets according to contractual maturity dates. The Bank calculates early repayment/withdrawal rates taking into account statistical analysis based on historical experience. For all items without contractual repayment schedule, the Bank allocates cash flows into time buckets according to statistical analysis, trend, seasonality and unpredictability factor. Assessment of the deposits stability is based on both statistical analysis and Basel committee guidelines. Future cash flows for loans are reduced by the expected cost of risk (CoR) for each individual segment of the portfolio.

All amounts are expressed in 000 RSD unless stated otherwise

The table below summarizes the Bank's exposure to liquidity rate risks. The table presents the aggregated amounts of the Bank's financial assets/liabilities and off-balance items, according to the above mentioned methodology:

	Gross nominal inflow/(outflow)	Less than 3 months	3-6 months	6-12 mont	1-5 year	More than 5 years
31 December 2018						
Total financial assets	**182,492,630**	**45,148,259**	**13,379,830**	**23,126,550**	**76,678,756**	**24,159,235**
Cash and assets held with central bank	18,916,935	8,664,691	1,036,079	2,258,436	4,307,005	2,650,724
Loans and receivables to banks and other financial institutions	15,569,893	14,984,710	585,183	-	-	-
Loans and receivables to customers	134,654,835	17,290,057	11,306,943	17,704,272	67,533,092	20,820,471
Securities	12,748,749	4,208,801	451,625	3,163,842	4,838,659	85,822
Other asset	602,218	-	-	-	-	602,218
Total financial liabilities	**(116,979,619)**	**(48,176,871)**	**(11,434,134)**	**(13,850,326)**	**(26,196,294)**	**(17,321,994)**
Deposits and other liabilities from banks, other financial institutions and central bank	(13,053,880)	(5,703,566)	(5,525,640)	(1,197,673)	(376,464)	(250,537)
Deposits and other liabilities from customers	(103,114,651)	(41,662,217)	(5,908,494)	(12,652,653)	(25,819,830)	(17,071,457)
Other liabilities	(811,088)	(811,088)	-	-	-	-
Net liquidity gap	**65,513,011**	**(3,028,612)**	**1,945,696**	**9,276,224**	**50,482,462**	**6,837,241**
Cumulative net liquidity gap		**(3,028,612)**	**(1,082,916)**	**8,193,308**	**58,675,770**	**65,513,011**
Effect of derivatives held for risk management	**(33,567)**	**(15,986)**	**(17,581)**	**-**	**-**	**-**
Other off-balance asset	**(4,620,208)**	**(3,683,776)**	**(52,299)**	**(88,159)**	**(340,941)**	**(455,033)**
Other off-balance liability	**(638,207)**	**(638,207)**	**-**	**-**	**-**	**-**
Total liquidity gap	**60,221,029**	**(7,366,581)**	**1,875,816**	**9,188,065**	**50,141,521**	**6,382,208**
Cumulative total liquidity gap		**(7,366,581)**	**(5,490,765)**	**3,697,300**	**53,838,821**	**60,221,029**

All amounts are expressed in 000 RSD unless stated otherwise

	Gross nominal inflow/(outflow)	Less than 3 months	3-6 months	6-12 months	1-5 year	More than 5 years
31 December 2017 (restated)						
Total financial assets	**169,146,517**	**42,124,828**	**13,543,679**	**18,034,314**	**71,826,326**	**23,617,370**
Cash and assets held with central bank	17,998,062	7,879,978	1,206,005	2,910,083	3,241,981	2,760,015
Loans and receivables to banks and other financial institutions	14,118,788	13,891,814	226,974	-	-	-
Loans and receivables to customers	121,957,119	16,933,151	10,188,277	15,019,231	60,114,228	19,702,232
Securities	13,990,806	3,419,885	1,922,423	105,000	8,470,117	73,381
Other asset	1,081,742	-	-	-	-	1,081,742
Total financial liabilities	**(106,684,679)**	**(40,088,838)**	**(8,660,622)**	**(20,116,318)**	**(21,258,365)**	**(16,560,536)**
Deposits and other liabilities from banks, other financial institutions and central bank	(9,205,117)	(211,119)	(2,109,109)	(4,551,519)	(2,298,247)	(35,123)
Deposits and other liabilities from customers	(96,782,170)	(39,180,327)	(6,551,513)	(15,564,799)	(18,960,118)	(16,525,413)
Other liabilities	(697,392)	(697,392)	-	-	-	-
Net liquidity gap	**62,461,838**	**2,035,990**	**4,883,057**	**(2,082,004)**	**50,567,961**	**7,056,834**
Cumulative net liquidity gap		**2,035,990**	**6,919,047**	**4,837,044**	**55,405,005**	**62,461,839**
Effect of derivatives held for risk management	**75,175**	**47,721**	**27,454**	**-**	**-**	**-**
Other off-balance asset	**(1,802,567)**	**(704,518)**	**(52,221)**	**(90,958)**	**(488,615)**	**(466,255)**
Other off-balance liability	**(907,123)**	**(907,123)**	**-**	**-**	**-**	**-**
Total liquidity gap	**59,827,323**	**472,070**	**4,858,290**	**(2,172,962)**	**50,079,346**	**6,590,579**
Cumulative total liquidity gap		**472,070**	**5,330,360**	**3,157,398**	**53,236,744**	**59,827,323**

All amounts are expressed in 000 RSD unless stated otherwise

The table below summarizes the availability of the Bank`s financial assets to support future funding (liquidity reserve):

31 December 2018	Gross carrying amount	Impairment	Net carrying amount	Fair value
Cash	**3,794,528**	**(53)**	**3,794,475**	**3,794,528**
Nosto accounts	**3,377,936**	**(218)**	**3,377,718**	**3,377,936**
Money market placements to banks	**7,103,709**	**(1,695)**	**7,102,014**	**7,103,709**
Securities	**16,820,462**	**(12,966)**	**16,807,496**	**16,926,660**
-RRepo	4,501,793	(63)	4,501,730	4,501,793
-AC Bonds*	12,230,294	(12,903)	12,217,391	12,336,492
-Trading Bonds	88,161	-	88,161	88,161
-Shares	214	-	214	214
Total	**31,096,635**	**(14,932)**	**31,081,702**	**31,202,833**

*Pledged amount as of 31 December 2018: 1,523,992

Bonds classified as amortised cost are included in the liquidity reserves, considering that they represent high quality liquid assets, which are recognized as well in the calculation of the regulatory liquidity coverage ratio. It is also taken into account that, according to IFRS 9, ocassional (rare, or in small amounts) sales under unfavourable scenarios are permitted without the impact on business model. In addition, maturity of the AC bonds in the portfolio as of 31.12.2018 is relatively short (more than 60% matures in 2019 and the rest in 2020).

31 December 2017	Gross carrying amount	Impairment**	Net carrying amount	Fair value
Cash	2,480,467	-	2,480,467	2,480,467
Nosto accounts	1,167,690	(104)	1,167,586	1,167,690
Money market placements to banks	8,448,849	(3,430)	8,445,419	8,448,848
Securities	18,151,112	(22,148)	18,128,964	17,659,398
-RRepo	4,501,606	-	4,501,606	4,501,606
-AFS Bonds*	13,337,796	(22,148)	13,315,648	12,846,082
-Trading Bonds	311,292	-	311,292	311,292
-Shares	418	-	418	418
Total	**30,248,118**	**(25,682)**	**30,222,436**	**29,756,403**

*Pledged amount as of 31 December 2017: 3,110,300
**as of 01 January 2018 (IFRS 9)

4.4. 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.

4.5. 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.

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%;
- 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.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

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 2018 and 31 December 2017, as well as the capital adequacy ratio:

	31 December 2018	31 December 2017	31 December 2017 Restated
Shareholders' equity	25,422,400	25,422,400	25,422,400
Share premium	6,051,999	6,051,999	6,051,999
Reserves	9,558,335	9,558,335	9,558,335
Intangible assets	(2,161,526)	(1,944,891)	(1,944,891)
CET 1 deductible items	(45,206)	(5,078,959)	(4,878,740)
CET 1	**38,826,002**	**34,008,884**	**34,209,103**
TIER I capital	**38,826,002**	**34,008,884**	**34,209,103**
Preference shares	4,300	4,800	4,800
TIER II capital	**4,300**	**4,800**	**4,800**
Tier II deductible items	-	(500)	(500)
Total regulatory capital	**38,830,302**	**34,013,184**	**34,213,403**
Capital adequacy	**28.37%**	**29.15%**	**29.58%**

Due to decrease of NPL ratio below 10% and in accordance with NBS Classification Decision reserves for estimated losses are not any more deductible item from CET1 what resulted with increase of CET1.

5. Classification and fair value of financial assets and liabilities

a) Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using another valuation technique that is appropriate in the circumstances, and maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

Fair value of some financial instrument presented at nominal value is approximately equal to its carrying value. This includes Cash and assets held with the central bank, Loans and receivables to banks and other financial institutions and other assets. For loans and receivables the expected future cash flow is discounted up to their present value by means of the credit risk-adjusted discount rate. Credit Risk Adjusted Discount Rate is built up of the following components:

- Risk-free interest rate;
- Funding costs;
- Minimum Equity Requirements costs;
- Loans' servicing costs;
- Loans' fees and commissions and
- Cost of risk.

Investment securities carried at amortized cost: the fair values of financial investments are determined using prices quoted in an active market when these are available. In other cases, fair values are determined using quoted market prices for securities with similar credit risk, maturity and yield, quoted market prices in non-active markets for identical or similar financial instruments, or by using the discounted cash flows method

Fair value of deposits, irrevocable loan obligations and potential obligations is the same as their carrying values. Management of the Bank is of the opinion that, giving ordinary business activities of the Bank and its general policies, as well as dominantly short-term structure of deposits there are no significant differences between carrying amount of assets and liabilities and their fair values. Furthermore, Management of the Bank is of opinion that fair value of borrowings is same as carrying value either due to short-term maturity of liabilities or due to EURIBOR related variable interest rates with low fixed margins.

There is not enough market experience in the Republic of Serbia neither the stability nor liquidity in the trade of receivables and other financial assets and liabilities, since official market information is not always available. Therefore, fair value cannot be reliably determined in the absence of active market.

5. Classification and fair value of financial assets and liabilities (continued)

Assessment of financial instruments

The Bank's financial instruments carried at fair value or at amortized cost for which fair value is disclosed are categorized into the three levels of the fair value hierarchy based on whether the inputs to the fair values are observable or unobservable, as follows:

(a) Level 1-Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that the Bank can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. Level 1 financial instruments include actively quoted debt instruments, held or issued by the Bank, equity and derivative instruments traded on exchanges, as well as mutual funds that have regularly and frequently published quotes.

(b) Level 2-Financial instruments measured using valuation techniques with inputs, other than level 1 quoted prices, that are observable either directly or indirectly, such as: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognized market data providers and iv) other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments include over-the-counter (OTC) derivatives, less liquid debt instruments held or issued by the Bank and equity instruments.

(c) Level 3-Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equities or equities traded in markets that are not considered active, certain OTC derivatives and loans and advances to customers.

All amounts are expressed in 000 RSD unless stated otherwise

5. Classification and fair value of financial assets and liabilities (continued)

Tables below analyse 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:

	31 December 2018	
	Book value	**Fair value**
Financial assets at fair value		
Financial assets at fair value through profit and loss	167,183	167,183
Total	**167,183**	**167,183**
Financial liabilities at fair value		
Derivative liabilities	56,127	56,127
Total	**56,127**	**56,127**

	31 December 2017	
	Book value	**Fair value**
Financial assets at fair value		
Financial assets at fair value through profit and loss	322,759	322,759
Financial assets available for sale	13,048,315	13,048,315
Total	**13,371,074**	**13,371,074**
Financial liabilities at fair value		
Derivative liabilities	13,222	13,222
Total	**13,222**	**13,222**

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Shares (Note 4.1.5; 22)	27,557	-	-	27,557
Treasury bonds	-	88,161	-	88,161
Derivative assets (Note 21)	-	51,465	-	51,465
Total assets	**27,557**	**139,626**	**-**	**167,183**
Derivative liabilities (Note 30)	-	56,127	-	56,127
Total liabilities	**-**	**56,127**	**-**	**56,127**

All amounts are expressed in 000 RSD unless stated otherwise

5. Fair value of financial assets and liabilities (continued)

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Shares (Note 4.1.5; 22)	418	-	-	418
Treasury bonds	-	311,293	-	311,293
Derivative assets (Note 21)	-	11,048	-	11,048
Financial assets available for sale				
Shares (Note 4.1.5; 22))	21,812	-	-	21,812
Treasury bonds (Note 4.1.5; 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**

The following tables present the fair value of financial instruments not measured at fair value and analyse them according to the fair value hierarchy within which the fair value measurement takes place:

	31 December 2018		*(restated)* 31 December 2017	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Cash and balances with Central bank	18,922,554	18,922,554	18,005,519	18,005,519
Loans and receivables from banks and other financial organizations	15,885,158	15,885,158	14,303,432	14,303,432
Loans and receivables from customers	116,142,151	114,694,551	105,331,229	107,124,944
Securities (measured at amortized cost)	12,217,392	12,336,492	-	-
Total	**163,167,255**	**161,838,755**	**137,640,180**	**139,433,895**
Financial liabilities				
Deposits and other liabilities towards banks and other financial organizations	13,352,584	13,352,584	9,225,583	9,225,583
Deposits and other liabilities towards customers	102,537,069	102,537,069	96,617,011	96,617,011
Total	**115,889,653**	**115,889,653**	**105,842,594**	**105,842,594**

All amounts are expressed in 000 RSD unless stated otherwise

5. Fair value of financial assets and liabilities (continued)

	Fair value			
31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash and balances with Central bank	-	18,922,554	-	18,922,554
Securities (measured at amortized cost)	-	12,336,492	-	12,336,492
Loans and receivables from banks and other financial organizations	-	15,885,158	-	15,885,158
Loans and receivables from clients	-	-	114,694,551	114,694,551
Total	**-**	**47,144,204**	**114,694,551**	**161,838,755**
Financial liabilities				
Deposits and other liabilities towards banks and other financial organizations	-	13,352,584	-	13,352,584
Deposits and other liabilities towards clients	-	-	102,537,069	102,537,069
Total	**-**	**13,352,584**	**102,537,069**	**115,889,653**

(restated)

	Fair value			
31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and balances with Central bank	-	18,005,519	-	18,005,519
Loans and receivables from banks and other financial organizations	-	14,303,432	-	14,303,432
Loans and receivables from clients	-	-	107,124,944	107,124,944
Total	**-**	**32,308,951**	**107,124,944**	**139,433,895**
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	**-**	**9,225,583**	**96,617,011**	**105,842,594**

All amounts are expressed in 000 RSD unless stated otherwise

b) ***Classification of financial assets and liabilities***

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

In RSD thousand	**Financial assets at FVTPL**	**Financial assets at amortised cost**	**Total 31 December 2018**
Financial assets			
Cash and assets held with the central bank	-	18,922,554	18,922,554
Pledged financial assets	-	1,523,992	1,523,992
Receivables from derivatives	51,465	-	51,465
Securities	115,718	10,693,400	10,809,118
Loans and receivables to banks and other financial institutions	-	15,885,158	15,885,158
Loans and receivables to customers	1,520	116,140,631	116,142,151
Other assets	-	580,814	580,814
Total financial assets	**168,703**	**163,746,549**	**163,915,252**
Financial liabilities			
Liabilities from derivatives	56,127	-	56,127
Deposits and other liabilities due to banks, other financial institutions and central bank	-	13,352,584	13,352,584
Deposits and other liabilities due to customers	-	102,537,069	102,537,069
Total finantial liabilities	**56,127**	**115,889,653**	**115,945,780**

In RSD thousand	**Financial assets at FVTPL**	**Financial assets available for sale**	**Financial assets at amortised cost**	***(restated)*** **Total 31 December 2017**
Financial assets				
Cash and assets held with the central bank	-	-	18,005,519	18,005,519
Pledged financial assets	-	3,110,300	-	3,110,300
Receivables from derivatives	11,048	-	-	11,048
Securities	311,711	9,938,015	-	10,249,726
Loans and receivables to banks and other financial institutions	-	-	14,303,432	14,303,432
Loans and receivables to customers	-	-	105,331,229	105,331,229
Other assets	-	-	1,027,450	1,027,450
Total financial assets	**322,759**	**13,048,315**	**138,667,630**	**152,038,704**
Financial liabilities				
Liabilities from derivatives	13,222	-	-	13,222
Deposits and other liabilities due to banks, other financial institutions and central bank	-	-	9,225,583	9,225,583
Deposits and other liabilities due to customers	-	-	96,617,011	96,617,011
Total finantial liabilities	**13,222**	**-**	**105,842,594**	**105,855,816**

All amounts are expressed in 000 RSD unless stated otherwise

6. Interest income and expense

	2018	2017
Interest income		
Interest income from dinar assets measured at amortised cost		
Loans	6,760,193	6,276,899
Deposits in banks	117,643	139,108
Securities	485,274	558,346
Other placements	153,223	97,569
Interest income from dinar assets measured at FVTPL		
Securities	9,592	2,872
Interest income from foreign currency assets measured at amortised cost		
Loans	131,319	108,213
Deposits in banks	134,764	86,177
Securities	7,631	28,702
Other placements	490	1,188
Interest income from foreign currency assets measured at FVTPL		
Other placements (derivatives)	85,191	104,020
	7,885,320	**7,403,094**
Interest expense		
Interest expense from dinar liabilities measured at amortised cost		
Deposits from banks	(625,539)	(372,724)
Interest expense from foreign currency liabilities measured at amortised cost		
Borrowings	(42,399)	(48,442)
Deposits from banks	(240,449)	(348,740)
Interest expense from foreign currency liabilities measured at at FVTPL		
Other liabilities (derivatives)	(49,550)	(61,541)
	(957,937)	**(831,447)**
Net interest income	**6,927,383**	**6,571,647**

Total interest income on impaired loans in 2018 amounted RSD 614 million.

All amounts are expressed in 000 RSD unless stated otherwise

7. Fee and commission income and expense

	2018	2017
Fees and commissions income		
Fees for banking services	2,255,518	2,208,977
Commissions from issued guarantees and other sureties	92,590	94,516
Other fees and commissions	350,391	394,604
	2,698,499	**2,698,097**
Fees and commissions expense		
Fees for domestic payment transactions	(76,244)	(32,674)
Fees for payment transactions abroad	(34,079)	(40,338)
Other fees and commissions	(485,071)	(474,821)
	(595,394)	**(547,833)**
Net fees and commissions income	**2,103,105**	**2,150,264**

8. Net gains arising from changes in the fair value of financial instruments

Net gains/(losses) from changes in the fair value of financial instruments:

	2018	2017
Net gains/(losses) from changes in the fair value of derivatives	(2,488)	3,008
Net gains from changes in the fair value of financial instruments at fair value through profit and loss	4,401	137
Net gains	**1,913**	**3,145**

9. Net gains arising from derecognition of financial instruments measured at fair value

	2018	2017
Gains from derecognition of financial instruments measured at fair value	677	3,702
Losses from derecognition of financial instruments measured at fair value	(192)	(13)
Net gains	**485**	**3,689**

All amounts are expressed in 000 RSD unless stated otherwise

10. Net foreign exchange gains/(losses)

	2018	2017
Foreign exchange gains	19,591,023	38,836,734
Foreign exchange losses	(19,541,095)	(38,856,117)
Net foreign exchange rate gains/(losses)	**49,928**	**(19,383)**

11. Net losses arising from impairment of financial assets which are not measured at fair value

	2018	*(restated)* 2017
Income from reversal of provisions and impairment losses		
Loans and receivables to customers (Note 24)	1,995,205	3,779,154
Other assets (Note 29)	30,488	2,791
Off balance sheet items (Note 37c)	209,673	87,974
Loans and receivables to banks	453	1,026
Collected written off loans and receivables	519,122	140,331
Subtotal	**2,754,941**	**4,011,276**
Expenses for provisions and impairment charge		
Loans and receivables to customers (Note 24)	(3,244,895)	(5,351,487)
Other assets (Note 29)	(20,379)	(2,500)
Off balance sheet items (Note 37c)	(56,492)	(111,377)
Loans and receivables to banks	(64,709)	(67,724)
Subtotal	**(3,386,475)**	**(5,533,088)**
Net provisions and impairment	**(631,534)**	**(1,521,812)**

12. Net gains arising from derecognition of financial instruments measured at amortized cost

Gains from sale of receivables to the third parties for the year 2018 and 2017 are presented in the below table:

	2018	2017
Gains from sale of receivables	3,489	2,620
Net gains	**3,489**	**2,620**

All amounts are expressed in 000 RSD unless stated otherwise

13. Other income

	2018	2017
Rental income	2,678	3,999
Dividends income	403	743
Other income	26,476	4,710
Total other income	**29,557**	**9,452**

14. Salaries, benefits and other personnel expenses

	2018	2017
Salaries	(1,353,933)	(1,334,504)
Taxes on salaries and benefits	(166,067)	(168,432)
Contributions on salaries and benefits	(357,779)	(350,326)
Other personnel expenses	(29,133)	(28,559)
Expenses related to retirement benefits	(25,505)	(27,111)
Total	**(1,932,417)**	**(1,908,932)**

15. Depreciation and amortization

	2018	2017
Intangible assets (Note 26)	(240,576)	(203,694)
Property, plant and equipment (Note 27)	(188,922)	(190,678)
Total	**(429,498)**	**(394,372)**

All amounts are expressed in 000 RSD unless stated otherwise

16. Other income and other expenses

a) *Other income*

	2018	2017
Income from reversal of provisions	9,362	8,678
Gains on sale of fixed and intangible assets	1,044	38,255
Income from collection of claims and litigation	66,615	36,060
Other income	13,569	39,421
Total	**90,590**	**122,414**

b) *Other expenses*

	2018	2017
Administrative expenses	1,520,750	1,492,094
Non-material expenses	1,062,418	1,068,232
Contributions for salaries on behalf of employer	321,822	314,868
Materials	147,916	143,652
Taxes	54,199	55,881
Disposals and write-offs of intangible assets and PPE	9,392	14,578
Impairment of building	314,242	-
Legal expenses and taxes	64,580	57,215
Other expenses	103,997	125,179
Provisions for legal cases (Note 34)	39,871	51,145
Total	**3,639,187**	**3,322,844**

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

	2018	2017
Transportation services	72,945	72,763
Communication services	117,714	127,191
Telephone	21,931	21,902
Software maintenance	448,459	421,416
Hardware maintenance	47,790	55,937
Maintenance of fixed assets	36,060	35,153
ATM maintenance	17,083	15,347
Marketing and advertising	295,926	270,433
Donations	16,792	14,975
Rent	375,997	377,772
Other services	70,053	79,205
Total	**1,520,750**	**1,492,094**

As of 31 December 2018, non–material expenses in the amount of RSD 1,062,418 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 475,374 thousand, expenses for legal services in the amount of RSD 193,081 thousand, employee transportation expenses in the amount of RSD 45,169 thousand, cleaning services in the amount of RSD 25,013 thousand, safeguarding expenses in the amount of RSD 38,677 thousand, expenses for printing statements for cards in the amount of RSD 39,642 thousand, services of youth organization in the amount of RSD 10,878 collection services in the amount of RSD 25,814 thousand, information system services in the amount of RSD 24,333 thousand, intellectual services in the amount of RSD 29,508 thousand and other expense.

All amounts are expressed in 000 RSD unless stated otherwise

17. Income tax

Income tax:

	(restated) 2018	*(restated)* 2017
Current income tax expense	(318,712)	(21,044)
Deferred income tax expense/(income)	(8,289)	(192,153)
Total	**(327,001)**	**(213,197)**

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

		(restated) 2018		*(restated)* 2017
Profit before tax		**2,573,814**		**1,695,888**
Tax calculated at the rate of 15%		(386,072)		(254,383)
Reconciliation of effective interest rate:				
Non-deductible expenses and other		(5,455)		(5,122)
Transfer prices adjustment		(83)		(92)
Non-taxable income		83,226		81,757
Difference in net carrying amount of asset for tax and financial reporting purpose		21,923		16,278
Employee benefits		579		2,868
Impairment of property		(17,396)		(2,220)
Other (capital gains)		950		(3,372)
Other (effects of IFRS 9 implementation)		(24,673)		2,431
Release of previously recognized tax credits		(9,239)		(58,707)
Tax effect of utilized tax losses carried forward and tax credits		9,239		136,301
Release of deferred tax assets on tax losses carried forward		-		(128,936)
Income tax expense	*12.70%*	**(327,001)**	*12.57%*	**(213,197)**

As at 31 December 2018, the Bank has taxable profit in the amount of RSD 2,186,342 thousand (2017: taxable profit of RSD 1,068,966 thousand). Effects of the first time adoption of IFRS 9 are recognized in the corporate income tax return over five tax years starting from year 2018. in equal amounts. The Bank has realized deferred tax assets arising from the first time adoption of IFRS 9 in the amount of RSD 21,105 thousand. Current income tax liability for year 2018 in the amount of RSD 318,712 thousand will be offset by the Bank’s prepayments of income tax from previous years in the amount of RSD 251,269 thousand, the remaining amount of liability of RSD 67,443 thousand 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 2018, the Bank has 43 preference shares issued. No preference dividends are declared, and therefore there is no effect on basic earnings per share.

	(restated) **2018**	*(restated)* **2017**
Profit attributable to equity holders of the Bank (in RSD thousand)	2,246,813	1,482,691
Weighted average number of ordinary shares in issue	254,224	254,224
Basic earnings per share (expressed in RSD per share)	**8,838**	**5,832**

19. Cash and assets held with the central bank

	31 December 2018	**31 December 2017**
In dinars		
Current account	5,699,935	6,668,347
Cash in hand	1,528,679	1,097,633
In foreign currency		
Cash in hand	2,265,723	1,382,771
Other cash and cash equivalents	2,519	2,975
Required reserve at Central Bank	9,425,698	8,853,793
Total	**18,922,554**	**18,005,519**

Mandatory reserves in local currency and in foreign currency are calculated by Bank in accordance with the Decision on Bank's Mandatory Reserves with the National bank of Serbia (Official Gazette of Republic of Serbia no 76/2018), and "Guidelines for Implementing the Decision on mandatory reserves with the National Bank of Serbia" (Official Gazette of Republic of Serbia no, 76/2018).

As at 31 December 2018 calculated mandatory reserves in local currency amounted to RSD 6,950,539 thousand (in 2017: RSD 6,496,464 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 2018 calculated mandatory reserves in foreign currency amounted to EUR 79,640 thousands (in December 2017: EUR 74,410 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.

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%.

All amounts are expressed in 000 RSD unless stated otherwise

19. Cash and assets held with the central bank (continued)

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.

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

	31 December 2018	31 December 2017
Cash and assets held with the central bank		
In dinars		
Current account	5,700,014	6,668,347
Cash in hand	1,528,679	1,097,633
In foreign currency		
Cash in hand	2,265,727	1,382,771
Other cash and cash equivalents	2,519	2,975
Loans and receivables to banks and financial institutions (Note 23)		
Foreign currency account	3,377,602	1,166,974
Total cash flow	**12,874,541**	**10,318,700**

20. Pledged financial assets

As at 31 December 2018 the Bank has pledged financial assets in the amount of RSD 1,523,992 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 2017 the Bank has pledged financial assets in the amount of RSD 3,110,300 thousand.

21. Receivables from derivatives

Derivative assets and liabilities:

	31 December 2018			31 December 2017		
		Fair values			Fair values	
	Contract/ notional amount	Assets	Liabilities	Contract/ notional amount	Assets	Liabilities
Derivatives held for trading						
Currency swaps	3,195,928	23	458	-	-	-
Interest rate swaps	19,329,255	51,442	55,669	14,451,324	11,048	13,222
Total	**22,525,183**	**51,465**	**56,127**	**14,451,324**	**11,048**	**13,222**

All amounts are expressed in 000 RSD unless stated otherwise

22. Securities

	31 December 2018			31 December 2017		
	Financial assets at FVTPL	Financial assets at amortized cost	Total	Financial assets held for trading	Financial assets available for sale	Total
In dinars						
Shares	418	-	418	418	21,812	22,230
State bonds	87,775	-	87,775	311,156	13,026,503	13,337,659
In foreign currency						
Shares	27,343	-	27,343	-	-	-
State bonds	-	12,230,295	12,230,295	-	-	-
Less adjustment or impairment allowance	182	(12,903)	(12,721)	137	-	137
Securities including pledged assets	**115,718**	**12,217,392**	**12,333,110**	**311,711**	**13,048,315**	**13,360,026**
Pledged financial assets (Note 20)	-	(1,523,992)	(1,523,992)	-	(3,110,300)	(3,110,300)
Total	**115,718**	**10,693,400**	**10,809,118**	**311,711**	**9,938,015**	**10,249,726**

23. Loans and receivables to banks and other financial institutions

	31 December 2018					31 December 2017
	Domestic banks	Foreign banks	Financial institutions	National Bank of Serbia	Total	Total
Repo in dinars	-	-	-	4,501,793	4,501,793	4,501,606
Receivables for calculated interest	46	-	-	-	46	50
Deposits in dinars						
Other deposits	-	-	-	-	-	400,000
Deposits in foreign currency	-					
Foreign banks accounts	-	3,377,602	-	-	3,377,602	1,166,974
Other deposits	425,501	6,677,871	4,727	-	7,108,099	7,819,834
Other special purpose deposits	248,053	585,183	-	-	833,236	436,022
Placements in dinars	-					
Other loans	-	-	57,918	-	57,918	99,284
Accrued interest receivables	-	-	338	-	338	320
Placements in foreign currency	-					
Other placements	-	-	1,834	-	1,834	6,185
Accrued interest receivables	1	337	6,233	-	6,571	17,239
Loans and placements, gross	**673,601**	**10,640,993**	**71,050**	**4,501,793**	**15,887,437**	**14,447,514**
Less: Provisions	(233)	(1,911)	(72)	(63)	(2,279)	(144,082)
Loans and placements, net	**673,368**	**10,639,082**	**70,978**	**4,501,730**	**15,885,158**	**14,303,432**

All amounts are expressed in 000 RSD unless stated otherwise

24. Loans and receivables to customers

	31 December 2018						(restated) 31 December 2017
	Companies	**Entrepreneurs**	**Individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Deposits in dinars							
Other special purpose deposits	31,500	-	-	-	-	31,500	31,500
Placements in dinars							
Interest and fee receivables	118,003	52,523	194,331	10	151,079	515,946	802,616
Investment loans	6,898,700	330,664	-	-	9,204	7,238,568	3,631,070
Overdrafts	206,351	68,514	867,532	-	1,534	1,143,931	1,143,030
Working capital loans	31,627,298	2,071,713	-	-	637	33,699,648	34,598,065
Mortgage loans	-	-	17,691,823	53,719	-	17,745,542	18,559,430
Other loans	9,837,120	3,774	5,614,680	-	55,869	15,511,443	15,821,214
Cash loans	-	-	37,728,670	-	-	37,728,670	32,211,893
Consumer loans	-	-	27,906	-	-	27,906	64,986
Other placements	-	3	4,085	-	427	4,515	1,274,279
Accrued interest receivables	59,156	7,576	247,859	78	121	314,790	328,994
Placements in foreign currency							
Interest and fee receivables	-	-	-	-	-	-	19
Import loans	6,431,905	-	-	-	-	6,431,905	4,496,468
Other loans	118,906	-	-	-	-	118,906	139,052
Other placements	1,090,690	-	-	-	-	1,090,690	1,713,686
Accrued interest receivables	3,855	-	-	-	-	3,855	3,279
Deferred income using effective interest rate	(89,304)	-	(55,307)	-	-	(144,611)	(155,588)
Loans and placements, gross	**56,334,180**	**2,534,767**	**62,321,579**	**53,807**	**218,871**	**121,463,204**	**114,663,993**
Less: Provisions	(1,884,865)	(563,425)	(2,723,264)	(326)	(149,173)	(5,321,053)	(9,332,764)
Loans and placements, net	**54,449,315**	**1,971,342**	**59,598,315**	**53,481**	**69,698**	**116,142,151**	**105,331,229**

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 3.9% - 34.5%. Interest rates for indexed loans to legal entities ranged between 1.9% and 3.75% per annum and for RSD loans between 3.45% and 4.20% per annum.

25. Investments in associates

	31 December 2018	**31 December 2017**
Investments in associates	36,075	43,681

As at 31 December 2018 the Bank is holding 49.49% of the voting rights of the ERB Leasing in liquidation a.d. Beograd (31 December 2017: 49.49%).

All amounts are expressed in 000 RSD unless stated otherwise

26. Intangible assets

	Intangible assets	In course of construction and advances	Total
As at 1 January 2017			
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**	**1,954,082**
As 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**
Year ended 31 December 2018			
Opening net book value	**1,835,768**	**109,122**	**1,944,890**
Additions	-	457,212	457,212
Transfers	452,095	(452,095)	-
Amortization (Note 15)	(240,576)	-	(240,576)
Closing net book value	**2,047,287**	**114,239**	**2,161,526**
As at 31 December 2018			
Cost	4,511,396	114,239	4,625,635
Accumulated amortization	(2,464,109)	-	(2,464,109)
Net book value	**2,047,287**	**114,239**	**2,161,526**

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
As at 1 January 2017				
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**	**3,653,311**
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**
As 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**
Year ended 31 December 2018				
Opening net book amount	3,062,835	506,450	13,867	3,583,152
Additions	57,319	-	305,502	362,821
Transfers	41,366	182,706	(281,393)	(57,321)
Disposal/Write off	(1,207)	(7,447)	-	(8,654)
Impairment	(314,241)	-	-	(314,241)
Depreciation (Note 15)	(71,573)	(117,349)	-	(188,922)
Closing net book value	**2,774,499**	**564,360**	**37,976**	**3,376,835**
As at 31 December 2018				
Cost	4,018,411	1,664,119	37,976	5,720,506
Accumulated depreciation and impairment	(1,243,912)	(1,099,759)	-	(2,343,671)
Net book value	**2,774,499**	**564,360**	**37,976**	**3,376,835**

Rental expenses in the amount of RSD 375,997 thousand (2017: RSD 377,772 thousand) in relation to the rental of property are included in the operating expenses (Note 16).

As at 31 December 2018 there are no pledges 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:

	(restated) 2018	*(restated)* 2017
Deferred tax assets	42,805	-
Deferred tax liabilities	(163,181)	(132,277)

Deferred tax assets	*(restated)* **31 December 2018**	*(restated)* **31 December 2017**
Opening balance of deferred tax assets as at 1 January	**33,025**	**227,740**
Changes during the year:		
Increase/(decrease) of deferred tax assets related to temporary differences arising from the provisions for pensions	(232)	616
Increase/(decrease) of deferred tax assets related to temporary differences arising from the provisions for legal cases	(1,854)	(7,688)
Deferred tax assets on losses carried forward	-	(128,936)
Deferred tax assets on tax credits	(9,239)	(58,707)
Deferred tax income/(expense) for the year	**(11,325)**	**(194,715)**
Increase / (decrease) of deferred tax assets on revaluation reserves	**21,105**	**-**
Deferred tax assets as at 31 December	**42,805**	**33,025**

Deferred tax liabilities	**31 December 2018**	**31 December 2017**
Opening balance of deferred tax liabilities as at 1 January	**(165,302)**	**(169,706)**
Changes during the year:		
Increase/(decrease) of deferred tax liabilities related to temporary differences arising from depreciation costs treatment	3,035	2,562
Deferred tax income/(expense) for the year	**3,035**	**2,562**
Increase/ (decerease) of deferred tax liabilities on actuarial losses	(914)	544
Increase/ (decerease) of deferred tax liabilities arising from reserves on AFS portfolio	-	1,298
Deferred tax liabilities as at 31 December	**(163,181)**	**(165,302)**

In 2017, the Bank offset deferred tax assets and deferred tax liabilities since it has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority to the same taxable entity.

As at 31 December 2018 and 31 December 2017 the Bank has no unrecognized deferred tax assets on losses carried forward.

All amounts are expressed in 000 RSD unless stated otherwise

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

	(restated) 2018	*(restated)* 2017
Depreciation	3,035	2,562
Long term provisions	(2,085)	(7,072)
Losses carried forward	-	(128,936)
Tax credits	(9,239)	(58,707)
Total	**(8,289)**	**(192,153)**

29. Other assets

	31 December 2018	*(restated)* 31 December 2017
Prepayments and accrued income in dinars		
Accrued interest	40	24
Prepayments	351,627	278,513
Other prepayments and accrued income	15,108	460,581
Prepayments and accrued income in foreign currency		
Accrued interest	109	109
	366,884	**739,227**
Other receivables in dinars		
Employees	12	177
Advances for current assets	30,981	26,157
Advances for property, plant and equipment	57,180	118,896
For prepaid taxes and contributions	137	402
Suspense and temporary accounts	28,376	(14,355)
Other fee receivables	34,727	46,464
Other receivables	48,876	116,235
Other receivables in foreign currency		
Advances for current assets	919	921
Suspense and temporary accounts	22,079	8,574
Other fee receivables	281	5,003
Other receivables	118,508	115,509
	342,076	**423,983**
Inventory		
Assets received in collection of claims	-	12,415
Material	5,082	3,374
	5,082	**15,789**
Other assets, gross	**714,042**	**1,178,999**
Less: Impairment	(133,228)	(145,317)
Less: Impairment of repossessed collateral	-	(6,232)
Other assets, net	**580,814**	**1,027,450**

All amounts are expressed in 000 RSD unless stated otherwise

30. Liabilities from derivatives

	31 December 2018	31 December 2017
Liabilities in dinars		
Increase in fair value of derivatives	1,188	2,174
Liabilities in foreign currency		
Increase in fair value of derivatives	54,939	11,048
Total (Note 21)	**56,127**	**13,222**

31. Reconciliation of movements of liabilities to cash flows arising from financing activities

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 2017	**7,115,570**	**-**	**7,115,570**
Cash inflows	24,337,395	(500)	24,336,895
Cash outflows	(22,157,527)	-	(22,157,527)
Foreign exchange adjustments	(309,521)	-	(309,521)
Net debt at 31 December 2017	**8,985,917**	**(500)**	**8,985,417**
Cash inflows	21,657,191	-	21,657,191
Cash outflows	(17,890,279)		(17,890,279)
Foreign exchange adjustments	(27,021)	-	(27,021)
Net debt at 31 December 2018	**12,725,808**	**-**	**12,725,808**

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 2018				31 December 2017
	Foreign banks	**Domestic banks**	**Financial institutions**	**Total**	**Total**
Transaction deposits in dinars	27,531	-	35,190	62,721	77,370
Transaction deposits in foreign currency	316	6,232	614,542	621,090	11,100
Other deposits and liabilities in dinars					
Special purpose deposits	210	-	46	256	210
Other deposits	-	-	255,000	255,000	190,000
Interest and fees accruals in dinars	-	-	1,654	1,654	1,264
Other deposits and liabilities in foreign currency					
Special purpose deposits	216	-	569	785	279,619
Other deposits	-	236,389	96,443	332,832	59,303
Borrowings	1,158,306	-	10,885,845	12,044,151	8,599,697
Interest and fees accruals	8,335	-	25,760	34,095	7,020
Total	**1,194,914**	**242,621**	**11,915,049**	**13,352,584**	**9,225,583**

The structure of the Bank’s borowings as at 31 December 2018 is presented in the below table:

	Currency	**Balance as at 31 December 2018**	**Balance as at 31 December 2017**	**Nominal interest rate**
European Bank for Reconstruction and Development	EUR	10,885,845	6,585,661	0.381% - 0.392%
Banca Popolare di Sondrio	EUR	1,158,306	2,014,036	0.254%
Total		**12,044,151**	**8,599,697**	

All amounts are expressed in 000 RSD unless stated otherwise

33. Deposits and other liabilities due to customers

	31 December 2018							(restated) 31 December 2017
	Public sector	**Companies**	**Entrepreneurs**	**Private individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Transaction deposits in dinars	-	3,840,802	979,416	4,247,845	40,663	1,275,092	10,383,818	9,283,513
Transaction deposits in foreign currency	-	2,910,385	93,647	21,884,248	1,113,586	167,964	26,169,830	22,934,086
Other deposits and liabilities in dinars								
Savings deposits	-	-	-	1,199,028	7,608	-	1,206,636	949,957
Special purpose deposits	-	82,864	1	31,130	1,877	-	115,872	102,071
Deposits pledged as collateral	-	99,095	2,709	12,465	-	-	114,269	80,661
Other deposits	6,063,000	3,982,111	23,824	-	-	5,393,679[1]	15,462,614	11,597,033
Other financial liabilities	-	125	-	49,728	-	12	49,865	47,674
Interest, provisions and fees payable	-	321	103	38	-	-	462	299
Interest accruals	197,670	4,285	61	10,182	93	20,045	232,336	36,084
Other deposits and liabilities in foreign currency								
Savings deposits	-	-	-	41,208,647	939,803	-	42,148,450	42,874,216
Special purpose deposits	-	216,840	16,285	98,867	15,730	34,254	381,976	3,505,084
Deposits pledged as collateral	-	958,584	10,200	754,247	1,852	-	1,724,883	1,269,354
Other deposits	4,136	2,180,314	-	-	260,701	1,225,726	3,670,877	3,363,678
Borrowings	681,660	-	-	-	-	-	681,660	386,221
Other financial liabilities	-	-	-	-	-	87,061	87,061	53,226
Interest, provisions and fees payable in foreign currency	-	-	-	252	-	-	252	264
Interest accruals	447	2,160	1	94,330	6,465	2,805	106,208	133,590
Total	**6,946,913**	**14,277,886**	**1,126,247**	**69,591,007**	**2,388,378**	**8,206,638**	**102,537,069**	**96,617,011**

No interest rates calculated on demand corporate deposits in local/foreign currency during 2018. Term corporate deposits in local currency carry interest rate from 2.6% to 3.7% per annum and corporate foreign currency term deposits carry interest rate from 0.65% to 1.2% 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 0.5% for EUR and 2.4%RSD. Interest rate on foreign currency term deposits varied from 0.1% to 1.9% in EUR while interest rate on RSD term deposits of citizens ranged from 1.5% to 3.8% per annum.

Borrowings from the public sector in the amount of RSD 680,660 thousand as at 31 December 2018 (RSD 386,221 thousand as at 31 December 2017) are related to long-term loans from European investment bank (EIB) where the Bank acts as intermediary bank, while the Republic of Serbia is the ultimate debtor.

[1] *Deposits of companies in the bankruptcy*

All amounts are expressed in 000 RSD unless stated otherwise

34. Provisions

	31 December 2018	*(restated)* 31 December 2017
Provisions for off-balance sheet exposures	53,393	243,374
Provisions for legal cases (Note 37 b)	105,351	117,706
Provisions for retirement	39,319	40,869
Other provisions in accordance with IAS 19 requirements	28,485	29,369
Total	**226,548**	**431,318**

Movements in total provisions:

	Bonuses and other - IAS 19	Retirement	Legal cases	Off balance sheet	Total
Opening balance 2017	**11,646**	**36,759**	**168,963**	**229,217**	**446,585**
Provisions paid during the year	(7,814)	(1,088)	(93,777)	-	(102,679)
New provisions	25,537	1,574	51,145	111,377	189,633
Release of provisions (Note 11, 10)	-	3,624	(8,678)	(87,974)	(93,028)
Net exchange gain/loss	-	-	53	(9,246)	(9,193)
Closing balance 2017 (restated)	**29,369**	**40,869**	**117,706**	**243,374**	**431,318**
IFRS 9 first time adoption effects	-	-	-	(36,682)	(36,682)
Provisions paid during the year	(20,617)	(1,226)	(42,848)	-	(64,691)
New provisions	19,733	5,772	39,870	56,492	121,867
Release of provisions (Note 10, 11)	-	(6,096)	(9,362)	(209,673)	(225,131)
Net exchange gain/loss	-	-	(15)	(118)	(133)
Closing balance 2018	**28,485**	**39,319**	**105,351**	**53,393**	**226,548**

The movement of the liability for standard legal staff retirement indemnity obligations is as follows:

	2018	2017
Retirement benefit obligation at 01 January	**40,869**	**36,759**
Benefits paid and expense included in staff costs	4,545	486
Remeasurement recognised in OCI	(6,095)	3,624
Retirement benefit obligation at 31 December	**39,319**	**40,869**

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

	31 December 2018	31 December 2017
Discount rate	4.70%	5.00%
National average salary increase	2.00%-4.25%	2.50%-4.50%
Inflation rate	3.25%	3.50%

All amounts are expressed in 000 RSD unless stated otherwise

35. Other liabilities

	31 December 2018	31 December 2017
Liabilities for salaries and benefits		
Temporary and occasional assignments	5,638	6,839
Other liabilities towards employees	952	3,329
	6,590	**10,168**
Other liabilities in dinars		
Operations managed on behalf of third parties	258	236
Advances received	110	11,940
Suppliers	139,469	132,681
Temporary and suspense accounts	7,574	10,210
Liabilities from profit	700	700
Other liabilities	66,582	19,960
Liabilities for interest and fees	25,405	21,996
Other obligations in foreign currency		
Advances received	42,913	49,710
Suppliers	33,151	9,439
Temporary and suspense accounts	278	95
Other liabilities	6,095	4,654
	322,535	**261,621**
Value added tax	59,745	54,698
Other taxes and contributions	7,385	8,427
	67,130	**63,125**
Accruals and deferred income in dinars		
Other accrued expenses	103,898	75,526
Deferred income from fees	21,100	17,654
Deferred interest income	-	6,742
Other accruals and deferred income (revaluation of FX derivatives)	57,879	388,962
Accruals and deferred income in foreign currency		
Other accrued expenses	15,185	16,009
Other accruals and deferred income	406	10,136
	198,468	**515,029**
Total	**594,723**	**849,943**

All amounts are expressed in 000 RSD unless stated otherwise

36. Equity

Equity of the Bank comprises share capital, share premium, statutory reserves, revaluation reserves and accumulated gains and losses:

	(restated) 31 December 2018	*(restated)* 31 December 2017
Share capital and other capital		
Share capital ordinary shares	25,422,400	25,422,400
Share capital preference shares	4,300	4,800
Share premium	6,051,999	6,051,999
Other capital	-	2,727
	31,478,699	**31,481,926**
Own shares	-	(500)
Statutory and other reserves	9,561,062	9,558,335
	9,561,062	**9,557,835**
Revaluation reserves		
Revaluation reserves	-	14,237
Actuarial loss on defined retirement benefits	5,368	186
	5,368	**14,423**
Accumulated gains	9,242,877	7,914,950
Current year profit	2,246,813	1,482,691
	11,489,690	**9,397,641**
Total shareholder's equity	**52,534,819**	**50,451,825**
Number of issued shares	**254,267**	**254,272**

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

Statutory and other reserves in the total amount of RSD 9,561,062 thousand include:

a) Reserves from profit in the amount of RSD 533,941 thousand representing reserves which were formed before the Bank entered in the merger process with National Savings Bank, out which RSD 230,392 thousand were reserves of the National Savings Bank and RSD 303,549 thousand reserves of the EFG Eurobank a.d.

b) Reserves from profit in the amount of RSD 9,024,394 thousand are reserves that were formed as a special reserve from profit for estimated losses in accordance with past regulations. Reserves in the amount of RSD 6,635,693 thousand referring to the missing amount of reserves for estimated losses on balance sheet assets, and reserves in the amount of RSD 2,388,702 thousand referring to missing reserves for estimated losses on off-balance sheet items. Calculation of this reserve was established in the period from 2005 to 2013.

c) The revaluation reserves in the amount of RSD 2,727 thousand were reclassified at the beginning of the year 2018 from the position of the equity to other reserves from profit. These reserves were formed in the earlier period as an item intended to improve the housing conditions, when it was in compliance with the binding regulations for joint stock companies.

All amounts are expressed in 000 RSD unless stated otherwise

36. Equity (continued)

The shareholders structure of the Bank as at 31 December 2018 is presented in the table below:

Shareholder	Ordinary shares	%	Preference shares	%	Total shares	%
Eurobank Ergasias	141,868	55.80%	17	39.52%	141,885	55.80%
Berberis Investments Limited	3,690	1.45%	-	-	3,690	1.45%
ERB N.E. BV Holding Company Holland	108,666	42.75%	-	-	108,666	42.75%
Agromerkantilija z, zadruga	-	-	3	6.98%	3	0.00%
AKT	-	-	1	2.33%	1	0.00%
Bambi banat	-	-	3	6.98%	3	0.00%
Buducnost	-	-	2	4.65%	2	0.00%
Dunav AD	-	-	1	2.33%	1	0.00%
Kopaonicanka ZP	-	-	2	4.65%	2	0.00%
Saobracajniinstitut CIP	-	-	3	6.98%	3	0.00%
Siemens IT solutions and service	-	-	2	4.65%	2	0.00%
Stem	-	-	1	2.33%	1	0.00%
TP Beogradelektro	-	-	6	13.94%	6	0.00%
Trustex	-	-	1	2.33%	1	0.00%
ZZ BajinaBasta	-	-	1	2.33%	1	0.00%
Total	**254,224**	**100.00%**	**43**	**100.00%**	**254,267**	**100.00%**

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

	Common shares	Preference shares
Closing balance 2018	**254,224**	**43**
Closing balance 2017	**254,224**	**48**

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

During 2018 the Bank did not perform any capital increase.

During 2018 the Bank carried out annulment of 5 own preference shares repurchased from the former shareholder Habit Pharm in bankruptcy in total amount of RSD 500 thousand (5 shares with nominal value RSD 100 thousand per one share).

Share premium

Share premium represents amounts issued over par. As at 31 December 2018 the Bank's share premium was RSD 6,051,999 thousand (31 December 2017: RSD 6,051,999).

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 2018	31 December 2017
Not later than one year	65,667	66,785
Later than one year but no later than five years	-	-
Later than five years	-	-
Total	**65,667**	**66,785**

b) Litigations

As at 31 December 2018, the Bank has provisions for legal cases in the amount of RSD 105,351 thousand (31 December 2017: RSD 117,706 thousand). Provisions in the amount of RSD 94,071 thousand relate to litigations for the unilateral increase in interest rates that was performed in the past (31 December 2017: RSD 110,796 thousand).

As at 31 December 2018, the Bank has RSD 11,107,261 thousand loans denominated in CHF. As of December 2018, there were two second instance verdicts against banks for termination of CHF mortgage loan contract due to significant change of market conditions (strengthening of CHF exchange rate comparing to RSD: one in favor of the client and another in favor of the bank). Both of them were under extraordinary legal remedy procedure-revision and both were reverted on the lower instance trial. Despite those two verdicts 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 clients. Management continue to monitor the issue and will decide on the need for a provision to be booked in accordance with IAS 37 when more information become available. At the moment, the management does not consider that possible negative implications for the Bank are probable.

As of 25th April 2019, the Parliament of Republic of Serbia has adopted the Law on the Conversion of Mortgage Loans Indexed in Swiss Francs. Estimated effects of the aforementioned Law are disclosed within the note 43.

All amounts are expressed in 000 RSD unless stated otherwise

37. Contingent liabilities and commitments (continued)

c) Off-balance positions

The Bank's off-balance positions as at 31 December 2018 and as at 31 December 2017 are presented in the table below:

In RSD thousand	31 December 2018	31 December 2017
Off-balance sheet items exposed to credit risk:		
Letters of credit	11,172	57,016
Performance guarantees	1,963,684	1,316,264
Payable guarantees	9,031,550	7,502,581
Irrevocable liabilities for undrawn loans and placements	19,109,432	17,790,765
Off-balance sheet items which are not exposed to credit risk:		
Other undertaken irrevocable obligations - binding letters of intent	180,174	172,453
Other taken irrevocable obligations-SPOT	1,607,735	1,875,772
Financial assets for securing liabilities	1,523,992	3,110,300
Derivatives	70,245,886	50,555,382
Guarantees received for commitments	28,719,246	28,735,590
Placements for transactions in the name and for the account of third parties	2,142,341	2,151,359
Other off-balance positions	187,746,079	175,571,970
Total off-balance items	**322,281,291**	**288,839,452**

38. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks. As at 31 December 2018, the Bank's ratios were in compliance with the prescribed levels:

Business indicators	Regulatory limit	2018	Regulatory limit	2017	2017 (restated)
Capital adequacy	min 8%	28.37%	min 8%	29.15%	29.58%
Tier I CAD ratio	min 6%	28.37%	min 6%	29.15%	29.58%
CET 1 ratio	min 4,5%	28.37%	min 4,5%	29.15%	29.58%
Long term investments indicator	max 60%	8.70%	max 60%	10.53%	10.47%
Largest individual exposure of the Bank	max 25%	19.35%	max 25%	20.77%	20.65%
Large exposures indicator	max 400%	47.59%	max 400%	66.69%	66.30%
Liquidity indicator:					
- first month of reporting period	min 1	1.43	min 1	1.37	1.37
- second month of reporting period	min 1	1.42	min 1	1.52	1.52
- last month of reporting period	min 1	1.48	min 1	1.46	1.46
Narrow liquidity indicator:					
- first month of reporting period	min 0.7	1.12	min 0.7	1.06	1.06
- second month of reporting period	min 0.7	0.97	min 0.7	1.18	1.18
- last month of reporting period	min 0.7	0.96	min 0.7	1.07	1.07
Currency risk	max 20%	5.54	max 20%	3.71	3.71
Liquidity coverage ratio	min 100%	224.63%	min 100%	552.22%	552.22%

As at 31 December 2018, 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 Bank's share capital increase, fully covered by investors, institutional and others the percentage of the Bank's ordinary shares with voting rights held by the 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 Bank. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Bank's General Assembly only for decisions concerning the amendment of the Bank's Articles of Association, including the increase or decrease of the Bank's capital or the granting of a corresponding authorization to the Bank's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Bank, 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 Bank 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 Bank's corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of the Bank's Non-Performing Loans (NPLs) management framework and of the Bank's performance on NPLs resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of the Bank's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for the Bank's Group Risk and Capital Strategy and for the Bank'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 Bank's Board.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and guarantees.

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 2018 are presented in the table below:

	Eurobank Ergasias	Be-Business Exchanges S.A.	IMO Property Investments	ERB Property services	ERB Leasing	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	39,385	-	-	-	-	-	-	-	-	-
Interest and fee receivables	337	-	1,989	-	-	-	-	-	-	-
Loans to clients	6,677,871	-	650,070	77	-	-	-	-	-	-
Investment in shares	-	-	-	-	58,500	-	-	-	-	-
Derivative assets	216	-	-	-	-	-	-	-	-	-
Other receivables		-	16	23	17	-	-	-	-	-
Total assets	**6,717,809**	**-**	**652,075**	**100**	**58,517**	**-**	**-**	**-**	**-**	**-**
Liabilities										
Due to customers	17,347	-	676,917	4,181	97,320	-	40	45,070	216	10,495
Suppliers	5,273	-	-	-	-	-	-	-	-	-
Derivative liabilities	54,723	-	-	-	-	-	-	-	-	-
Total liabilities	**77,343**	**-**	**676,917**	**4,181**	**97,320**	**-**	**40**	**45,070**	**216**	**10,495**
Income										
Interest income	118,172	-	16,041	-	-	-	-	-	-	-
Interest income on derivatives	3,410	-	-	-	-	-	-	-	-	-
Services	18,070	-	239	108	81	-	4,731	-	-	-
Other	-	-	-	-	1,766	-	-	-	-	-
Total income	**139,652**	**-**	**16,280**	**108**	**1,847**	**-**	**4,731**	**-**	**-**	**-**
Expenses										
Interest expense	11,914	-	1,231	51	205	-	-	-	-	-
Interest expense from derivatives	18,393	-	-	-	-	-	-	-	-	-
Fee and commission expense	274	-	-	6,205	-	-	-	-	-	-
Services	47,065	3,572	5,445	5,239	-	64,974	-	-	-	-
Other			-	-	-	-	-	-	-	-
Total expenses	**77,646**	**3,572**	**6,676**	**11,495**	**205**	**64,974**	**-**	**-**	**-**	**-**
Off balance sheet										
Other	-	-	-	223	-	-	-	-	-	-

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)

As at 31 December 2018, loans to employees amounted to RSD 2,230,597 thousand (31 December 2017: RSD 2,149,311 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates were in range from 1.7% to 4.7% 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 4.9% to 14.8%.

Payments key management personnel

	31 December 2018	31 December 2017
Salaries and other contributions	81,048	67,714
Total	**81,048**	**67,714**

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 2018	2017
USD	103.3893	99.1155
EUR	118.1946	118.4727
CHF	104.9779	101.2847

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

In accordance with Article 18 of the Law on Accounting, the Bank performed the process of reconciliation of outstanding liabilities and receivables with its debtors and creditors as of 31 October 2018 and it maintains credible documentation on the process.

Out of the total of 12,873 submitted confirmations, 47 were disputed (27 unjustified and 20 justified). All disputed confirmations are reconciled with the clients and there are no unreconciled outstanding receivables and liabilities.

42. Board of directors

Members of the Board of directors of Eurobank as at 31 December 2018 are listed below:

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

43. Events after the reporting period

Law on the Conversion of Mortgage Loans Indexed in Swiss Francs

As of 25th April 2019, the Parliament of Republic of Serbia has adopted the Law on the Conversion of Mortgage Loans Indexed in Swiss Francs. Pursuant to the aforementioned Law, the banks are obligated to offer the conversion of the remaining debt indexed in CHF into debt indexed in EUR within 30 days of the Law coming into effect. The conversion also envisages a 38% haircut of the converted debt amount and the application of interest rate as per the bank offer valid on 31 March 2019 for EUR indexed loans. The debtors have 30 days to inform the bank if they accept the offer and to sign the conversion contract. If the offer is not accepted the existing contract remains valid.

The Republic of Serbia has undertaken to reimburse 15% of the debt amount obtained through conversion and the bank is also entitled to tax credit of 2% of the amount of the remaining debt. Regarding the tax and accounting treatment of the debt reduction, the bank will record it in its business books as tax recognized expenditure pursuant to the corporate income tax law.

As of 31 March 2019, the Bank had CHF mortgage loans in amount of RSD 11.2 billion. The Bank's clients have positively responded on the Law and about 91% of the total CHF mortgage loans exposure has been converted in EUR. The Bank's best estimation of the loss coming from the conversion will be around RSD 1.6 billion. The negative effect on the financial result of the Bank, is calculated as expected total amount of converted debt multiplied with 23% (derecognition loss) decreased by: net release of provisions, lower corporate income tax due to losses and positive impact of tax credit.

Legal position of the Civil Department of the Supreme Court of Cassation

In addition to disclosed in Note 37 b), as of 2 April 2019, the Civil Department of the Supreme Court of Cassation adopted following Legal position "Validity of currency clause with regards to loan agreements indexed in CHF and conversion":

1. Currency clause may be lawfully contracted in order to preserve the equality of mutual consideration
2. The provision of the agreement on indexing the RSD debt by applying CHF exchange rate is annulled if the said provision is not grounded in a reliable written evidence that the Bank had obtained the disbursed RSD assets by debiting itself in the said currency and if, prior to concluding the agreement, it delivered to loan user a complete, written information on all business risks and economic-financial consequences arising from the application of such clause.
3. The loan agreement has a legal effect even after determining the nullity of the clause on the indexation of debt by application of the CHF exchange rate.
4. In the civil proceedings determining the lawfulness of a loan agreement i.e. of the agreement clause on the indexation of debt in CHF, the court shall as per the proposal of the plaintiff grant an injunction whereby the loan provider shall be forbidden from executing collateral and enforcing the contractual obligation of the loan user, unless the enforcement proceedings have already been initiated towards the execution of the collateral.
5. When the enforcement proceedings over collateral have already been initiated for the collection of debt, the court or the public enforcement officer shall at the request of the enforcement debtor postpone the execution without the pledge of guarantee.

As of 31 December 2018, the Bank did not have any litigation regarding the nullity of the clause on the indexation of debt by application of the CHF exchange rate explicitly.

All amounts are expressed in 000 RSD unless stated otherwise

43. Events after the reporting period (continued)

Bearing in mind that this legal position is not obligatory for the courts, that it was announced before the adoption of The Law on the Conversion of Mortgage Loans Indexed in Swiss Francs (Lex Specialis) and that the Bank does not have such litigations, the assessment of the Bank is that this legal position will not have impact of the financial position of the Bank.

Credit portfolio quality

As of 31.12.2018 mortgage portfolio of the Bank amounts 17,966,200 thousand RSD out of which 63.9% or 11.483.155 thousand RSD was in CHF.

The following table presents the quality of the Mortgage portfolio in CHF currency based on the Bank's classification system as at 31 December 2018:

			Stage 3		
	Stage 1	**Stage 2**	**Individual**	**Collective**	**Total**
Internal credit rating					
Strong	6,175,146	-	-	-	**6,175,146**
Satisfactory	1,313,057	-	-	-	**1,313,057**
Watch list	-	1,793,747	-	-	**1,793,747**
Impaired (Defaulted)	-	-	-	2,201,205	**2,201,205**
Total gross amount	**7,488,203**	**1,793,747**	**-**	**2,201,205**	**11,483,155**
Loss allowance	(17,771)	(19,874)	-	(338,661)	(376,306)
Total net amount	**7,470,433**	**1,773,873**	**-**	**1,862,544**	**11,106,849**

The following table presents overdue analysis of the Mortgage portfolio in CHF currency as at 31 December 2018:

	Mortgage CHF portfolio			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Up to 30 days	7,488,203	1,635,856	878,347	10,002,407
31 to 90 days	-	157,891	232,764	390,655
91 to 180 days	-	-	352,919	352,919
181 to 360 days	-	-	161,811	161,811
More than 360 days	-	-	575,364	575,364
Total Gross Carrying Amount	**7,488,203**	**1,793,747**	**2,201,205**	**11,483,155**
Cumulative Loss Allowance	(17,771)	(19,874)	(338,661)	(376,306)
Net Carrying amount at 31 December	**7,470,433**	**1,773,873**	**1,862,544**	**11,106,849**

All amounts are expressed in 000 RSD unless stated otherwise

43. Events after the reporting period (continued)

The following table stratifies credit exposures from mortgage loans in CHF by ranges of loan-to-value (LTV) ratio:

Mortgages in CHF	LTV
Less than 50%	2,992,337
50%-70%	3,038,601
71%-80%	1,510,542
81%-90%	1,509,714
91%-100%	914,930
101%-120%	787,692
121%-150%	491,527
Greater than 150%	190,062
Total exposure	**11,435,405**

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

Belgrade, 24 July 2019

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

TRANSLATION

EUROBANK A.D.
ANNUAL BUSINESS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

Table of Contents:

1. GENERAL

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 and today represents one of the leading foreign investors and financial institutions in the country. Following the more than decade of successful business in Serbia Eurobank offers a wide selection of standard and innovative banking products and services.

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 the Law on Banks based on principles of liquidity, safety and profitability.

Eurobank strives to be the leading choice bank for the clients in Serbia, both for the individuals and legal entities, operating with a sense of responsibility towards employees, clients, stakeholders and the community.

2. ORGANIZATIONAL STRUCTURE

Activities of the Bank employees are managed by the Executive Board of the Bank, represented by the President of the Executive Board. President and members of the Executive Board are elected by the Board of Directors. The Executive Board has 5 members.

The Bank is organized into Divisions which cover basic business functions. As at 31 December 2018, the Bank had the following Divisions:

- Cabinet of the President of the Executive Board,
- Retail, Small and Medium Enterprises Banking Sector,
- Troubled Assets Sector,
- Operations and Organization Sector,
- Corporate Banking Division,
- Treasury Division,
- Finance and Control Division,
- IT Division,
- Risk Management Division,
- Human Resources Management Division,
- Legal Division,
- Internal Audit Division,
- Marketing and Corporate Communication Division,
- Compliance Department, and
- Department for prevention of money laundering.

Bank's Network

As at 31 December 2018, the Bank had the Head Office, 80 retail branches and 5 business centers through which it conducts its operations. As at 31 December 2018, the Bank did not have any branches or offices abroad.

Human resources

As at 31 December 2018 the Bank had 1,499 employees (31 December 2017: 1,467 employees). The number of employees includes the active staff, the employees on leave as well as direct sales agents.

Qualification structure of the employees of the Bank as at 31 December 2018 is presented below:

	Total	%
University degree	647	43.16%
College degree	341	22.75%
High-school degree	497	33.16%
Skilled workers	11	0.73%
Low-skilled workers	3	0.2%
Total	**1,499**	**100%**

3. FINANCIAL REVIEW

The growth of GDP reached 4.2% in 2018, the highest yearly output rise in a decade. The growth was mostly driven by investments improvement, as well as with the sustained consumption increase. On the production side, the growth was well diversified with a positive contribution of each sector, primarily services and construction, but also with a recovery of the agricultural segment.

Despite somewhat of a slowdown in the fourth quarter of 2018, the industrial production rose 1.3% on an annual basis, while the manufacturing led the way with a rise of 1.9%, as it did last year. The electrical energy output ended the year in positive YoY growth territory, with a rise of 1.2%, while the mining fell 4.2%.

Foreign direct investments totaled 3.2 bn EUR, one third larger year on year; the highest portion of this total came from direct, green field investments (ca. 1.2 bn EUR), with another large part coming from reinvested profits, coming at 1.1 bn, and finally the remaining part was attributed to loans from parent companies from abroad.

Imports outweighed exports in 2018 (13.0% to 8.1%), which contributed for a sizeable rise in the trade deficit – to 5.6 bn EUR from 4.3 bn EUR a year earlier. As a consequence, Serbia had an annual current account deficit of ca. 5.2% of GDP.

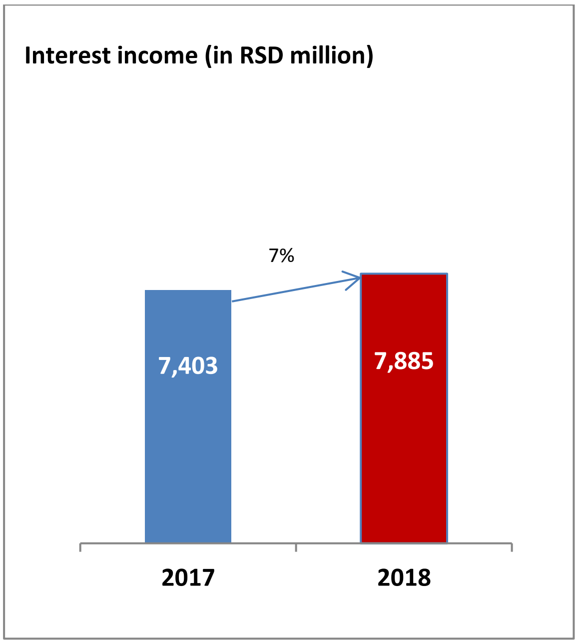
Inflation has been firmly anchored at around 2.0% during the past three to four years. At year end 2018, it stood at 2.0%, with minor oscillations throughout the year. The NBS reduced the key policy rate twice during the course of the year, to settle at 3.0% by year end. Interest rates lingered at historically lowest levels, which further improved credit activity.

The fiscal situation is quite stable, with a yearly consolidated budget figures slightly in surplus (0.6% of GDP at year end 2018.), which further contributed to the reduction of the public debt to GDP to ca. 55%.

The continuation of the positive economic trends is expected for the forthcoming period, with a growth rate of 3.5% in 2019 expected, and further strengthening to around 4.0% in the next few years. The rise should be driven by investment growth, higher public investments, the improvement of local demand and a recovery in net exports.

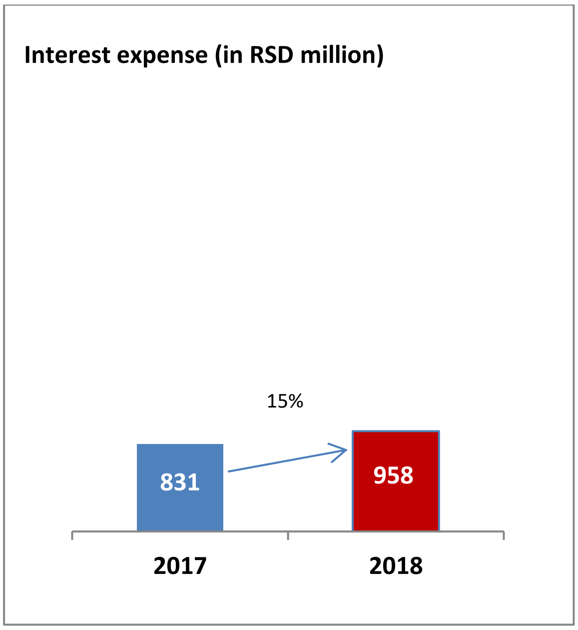
Operating revenues

Interest income



In line with growth of Bank's lending portfolio in 2018 compared to 2017, interest income was increased by RSD 482 million. In spite of decrease of RSD reference rate and increased pricing competition among the banks, first of all regarding corporate loans, Bank recorded interest income increase by 7% (y-o-y).

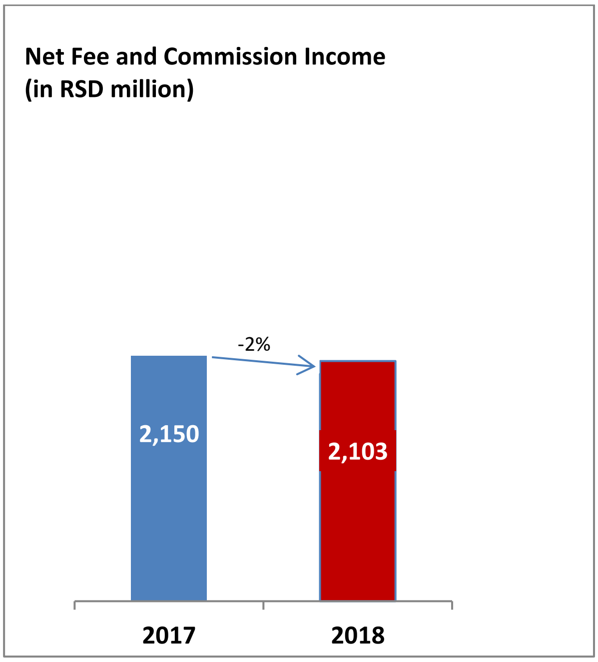
Interest expense



During 2018 interest expense was increased due to deposit balances growth, compared to 2017 and maintenance of liquidity ratio on prescribed level.

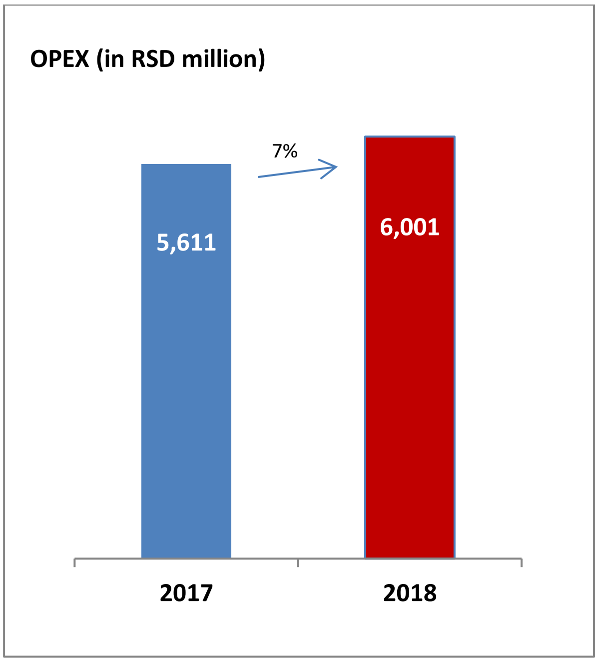
Total increase of client deposits and interbank takings in 2018 compared to 2017 amounted to 9%.

Net Fee and Commission Income



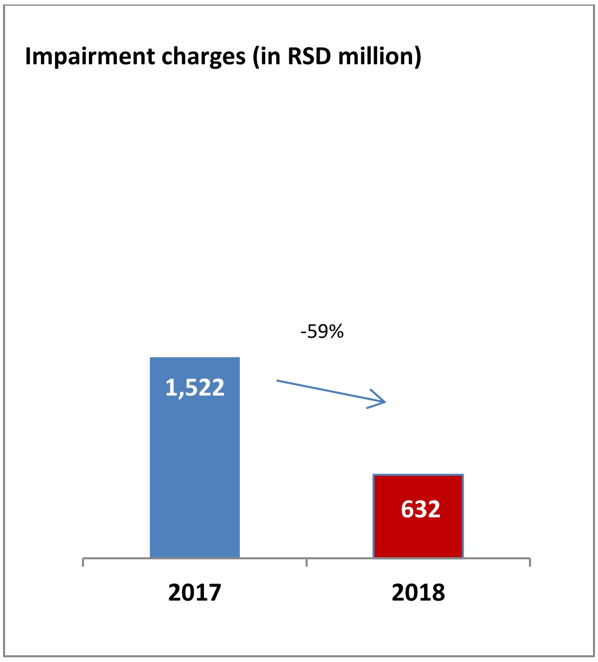
In 2018 net fee and commission income was decreased by 2% compared to the previous year. Net fee income decrease was due to growth of fee and commission expense, while fee and commission income remained on previous year level.

OPEX



OPEX in 2018 were higher compared to the previous year by 7%. Increase of OPEX was mostly due to expenses related to impairments of HO building (RSD 314 million).

Impairment charges



In 2018. Bank continued with improvement regarding impairment charges. Impairment charges were reduced by RSD 890 million (59%).

Significant improvement in impairment charges is coming from the fact that the Bank has managed to fully stabilize lending portfolio and there were no new significant inflows of NPL.

Final result

As at 31 December 2018 Bank continued with high profitability and recorded a profit of RSD 2.2 billion.

Capital adequacy

As at 31 December 2018, the capital adequacy (CAD) ratio of the Bank was 28.37% as compared to the prescribed ratio of 8% (as at 31 December, 2017: 29.15% (restated 29.58%)). It is necessary to note that retained earnings of the Bank amounting to RSD 11.5 billion were not included in the calculation of CAD, as they have not been distributed yet. Including the retained earnings into CAD would increase the stated CAD ratio by app. 8.4 percentage points.

4. PROTECTION OF ENVIRONMENT

The protection of the environment is one of the key pillars of corporate social responsibility in Eurobank. Aiming on the formation of long-term relationships with clients, employees and local community and by continuously aspiring towards improvement and implementation of environmental programs and initiatives, the Bank has analysed its overall impact on the environment. As the result of such analysis the following key initiatives stand out, as a ground for Bank`s environment management system:

Waste Management

The Bank adopted internal procedures for waste management, which are aligned with the basic principles of waste management – reduce, reuse and recycle, as well as with the valid regulations. By sorting, collecting and managing hazardous and non-hazardous waste material, the Bank reduces solid waste pollution. In 2018, the Bank continued the program for recycling waste paper, plastics and used-up printer cartridges and toners at all locations in Serbia, as well as its electrical and electronic waste material.

Responsible Financing – Social and Environmental Risks Management System

The Bank has integrated the Social and Environmental Risks Management System into its loan approval process pursuant to international standards and best practices. This System is one of the core elements of good cooperation established with the European Bank for Reconstruction and Development. The expansion of application of this responsible financing system to all portfolios is currently under way.

Energy and Climate Changes

The Bank continues to monitor the consumption of electric energy and all pertaining emissions, accordingly with respect to the importance of reduction in greenhouse gas emission.

Green Products – e-statements

The Bank introduced e-statements service in 2011, and since then has continued to work on the strategy of replacing hard copies with documents in electronic formats. This practice reduces the consumption of paper and tonners and contributes to the abatement of waste impact on the environment.

„The Green Procurement" Policy

Eurobank endeavors to transfer the culture of environment conservation to its clients and suppliers. Within this context, the Bank continues to develop and apply environmental protection criteria when assessing its suppliers and the products and services they offer.

5. PLANNED FUTURE DEVELOPMENT

The main objectives of the Bank's longer-term strategy are the following:

a) Continuously improving profitability through enhancement of net interest income, firm control of operational expenses and prudent cost of risk policies.
b) Preserving a strong liquidity position, including being fully funded from own liquidity sources and IFIs (international financial institutions).
c) Maintaining a strong capital position through internal sources of capital generation and optimization.

The main targets for the next 3 years are the following:

- Net loans to grow at an average of 7% p.a.,
- Profitability to target a Return on Equity of 7%,
- Cost to Income to aim at around 55%,
- Decrease of NPL below 7%.

6. FINANCIAL RISK MANAGEMENT GOALS AND PRINCIPLES

Basics of risk management process

Risk taking is an integral part of banking business. To ensure adequate management of risks, the Bank defined policies, models, methodologies and processes, aiming to identify all risks at an early stage, assess their impact on the realization of goals and establish a framework that enables effective control and management of risks. Risk management framework is established in compliance with the Law on Banks, the regulations and requirements of the National Bank of Serbia, Basel standards, International Financial Reporting Standards (IFRS/IAS), policies and guidelines of the parent bank and best banking practice. Risk management system is established by the Bank`s Board of Directors and monitored, besides the Board of Directors alone, by the following Bank's bodies: Audit Committee, Risk Committee, Executive Board, Operational Risk Committee, Assets and Liabilities Committee and Troubled Assets Committee. Functioning of the risk management system is regulated by the adopted internal policies, guidelines and procedures for each materially important risk type and independently assessed by Internal Audit function.

Risk management system has been designed in accordance to the size and organizational structure, nature, scope and complexity of Bank operations i.e. its risk profile, and with the aim to support the vision of the organization as the leading, universal and client-oriented Bank which ensures:

- implementation of high risk management standards;
- compliance with regulatory requirements;
- strong capital position;
- stable funding sources and strong liquidity.

With regards to the organizational structure of the Bank and basic principles of risk management, the risk management system is established and continuously improved in order to ensure the clearly defined competences and responsibilities, transparent and consistent lines of communication and exchange of information, and separation of risk taking activities from risk management activities.

Strategic framework for risk management is determined by Risk Management Strategy, Capital Management Strategy and Risk Appetite Policy. Principles and rules are further regulated by individual risk management policies, and operationalized and implemented through guidelines, procedures and methodologies.

Main risk management goals of the Bank are to secure in long term the adequate capital level of the Bank in order to cover all materially significant risks that Bank is or may be exposed to in its operations and to increase economic value for shareholders, to optimize capital utilization through system of risk limits, allocation of total internal capital requirements and strategic planning. Moreover, risk management system has been conceived to ensure that all risks are identified, measured, controlled in a timely manner and reported to appropriate decision making bodies.

In the course of 2018, the Bank continued to enhance risk management system by improvement of internal documents, methods and principles in a light of harmonization with guidelines and policies of the Parent Bank, as well as with the amendments to the domestic and international (EU) regulations and recommendations of the Internal and External Audit.

In the course of 2018, a project directed towards implementation of the new International Standard of Financial Reporting (IFRS 9) was continued in terms of improvement of technical implementation, data management and processes. The new international standard IFRS 9 replaced the former standard IAS 39 and entered into force as at 01 January 2018, introducing the essential amendments to the classification and measurement of financial instruments, as well as in the field of impairment.

In addition, the activities were performed which are closely connected with the implementation of the IFRS 9, however, which also have their independent role in improvement of the risk management function in the Bank. In concrete terms, it concerns the validation of the models for the assessment of Probability of Default – PD. The basic goal is that in this manner the credit decisions making process is improved, but, also that in addition to that the stated models may be used in the impairment calculation process according to IFRS 9, as well as in the procedure of Internal capital adequacy assessment process (ICAAP).

The Bank continued with efforts aiming to improve data management, which represents a basis for risk analysis, modeling and reporting. In the course of 2018, improvement of the reporting system has been achieved, increasing quality of the reports and level of automation, and certain ad hoc analysis have been performed for the purpose of monitoring of credit risk exposure.

Risk management framework

Risk management processes include Bank bodies, competent units responsible for identification, measurement and assessment, monitoring, limiting and reporting, and control units as well as risk taking units.

Risk management process comprises several phases which the Bank has defined as follows:

- risk identification;
- risk measurement and assessment;
- limitation and mitigation of risk;
- risk monitoring and risk control;
- risk reporting.

The process is entirely based on the documented policies, guidelines and procedures that are regularly reviewed in terms of their comprehensiveness, accuracy and quality.

Major financial risks the Bank is exposed to in its operations are the following: credit risk, liquidity risk, market risk and operational risk.

The Risk Management Division operates independently from other business units and it is responsible for management of credit risk, operational risk, liquidity risk and market risk. The Division comprises of the following departments:

- Credit Risk Department;
- Credit Control Department;
- Market Risk Department;
- Operational Risk Department;
- Collateral Management Department;
- Risk Modeling Department;
- Integrated Risk Management Department;
- Data Management Unit.

7. MAJOR FINANCIAL RISK MANAGEMENT POLICIES

Liquidity risk

Liquidity risk is the negative effects risk on financial result and capital due to inability of the Bank to settle its due obligations. Liquidity risk occurs due to:

- withdrawal of the existing funding sources as well as due to inability to attract new sources (funding liquidity risk) or
- difficulties in conversion of assets into liquid assets due to market disruptions (market liquidity risk).

In order to ensure cautious liquidity risk management, within its Market Risk Policy, and in accordance with the Group liquidity risk management guidelines, the Bank defined liquidity risk management specifying the manner of liquidity measurement, monitoring, and management. The Policy includes projections of cash flows, minimal liquidity levels, functions involved in liquidity risk management, liquidity risk monitoring and review functions, limit monitoring roles and responsibilities, escalation procedure for limit breaches, etc. In addition, in order to ensure an efficient process of managing liquidity risk and stable functioning of the Bank in circumstances requiring increased monitoring and liquidity management, within the Methodology – Contingency Business Plan, the Bank defined:

- procedures for identifying possible liquidity problems;
- list of indicators for early detection of possible problems related to the Bank`s liquidity;
- the process of reporting, communication, the way of accessing available or potential sources of liquidity;
- persons and relevant Bank bodies responsible for identifying problems related to the Bank`s liquidity;
- persons and relevant Bank bodies responsible for making decisions in such situations.

The goal of Bank's liquidity risk management is to ensure:

- that necessary liquidity management policies and procedures are established and implemented;
- sufficient liquid assets and adequate liquidity enabling a cautious carrying out of operations and settlement of Bank's due obligations;
- high quality of liquid assets enabling the Bank to successfully face a funding crisis;
- regular monitoring and control of the interbank financing capability, stability and diversity of the deposit base, total liquidity status of the Bank and external market environment;
- regular daily and continuous monitoring of the liquidity position through banking operations;
- assessment of Bank liquidity adequacy in crisis through stress testing;
- fulfillment of regulatory requirements.

Also, the Assets and Liabilities Management Committee regularly monitors and analyzes the Bank's operational liquidity, while the Assets and Liquidity Division performs operational liquidity management at the daily basis.

Referring to the Core Principles issued by the Basel Committee on Bank Supervision implemented from June 2017 regarding the reliable liquidity risk management and control, the Bank includes Liquidity coverage ratio (LCR) in its analyses.

In the event of an increased liquidity risk, the Bank shall use risk mitigation methods which include (but are not limited to):

- undertaking measures to change the balance sheet assets structure in terms of repayment deadline;
- utilization of the available lines with parent bank and other contractual parties;
- focusing on placement of funds into highly liquid assets.

Credit risk

Credit risk is the risk of financial loss due to an obligor's failure to fulfil their obligations to the Bank**.** The Bank is exposed to credit risk mainly in terms of loans and placements to customers and off-balance sheet items, but also in respect of exposure to banks and securities.

Given that the granting of a loan is a core activity of the Bank, credit risk is one of the primary risks that the Bank is exposed to. In view of this, credit risk is always considered a material risk.

In order to manage credit risk, the Bank defined within the Risk Management Strategy credit risk and its sub-categories.

Credit risk management is directed at maximizing the bank's risk-adjusted rate of return, by maintaining credit risk exposure within acceptable parameters.

The Bank applies the best international practices concerning credit activities, and has a well-defined credit approval process, independent review of the granted loans and an efficient credit risk management function.

The main objectives of credit risk management are:

- ✓ Maintain sound credit-granting standards;
- ✓ Monitor and control credit risk;
- ✓ Properly evaluate new business opportunities;
- ✓ Identify and manage problem credits.

To properly manage its credit risk, the Bank has formed an organizational structure that is well suited for the volume, type and complexity of activities the Bank engages in. This structure provides that the defined goals and credit risk management principles are adhered to, while also ensuring the independence of organizational units with risk control and management function (the Risk Management Division) from organizational units with risk taking function.

The following departments of the Risk Management Division are included in credit risk management: Credit Risk Department, Credit Control Department, Collateral Management Department, Risk Modeling Department and Integrated Risk Management Department.

Credit risk management processes include the main Bank's bodies: Board of Directors, Executive Board, Audit Committee, Risk Committee, Credit Committee of the Executive Board, Regional Credit Committee of the Board of Directors, Credit Committee for loans to individuals, small business and entrepreneurs, the Board of Directors Committee for Clients under Special Review-SHC I, Executive Board Committee for Clients under Special Review-SHC II, Troubled Assets Committee and New Products Committee.

The Bank has established in its internal documents, specifically in the Risk Management Strategy and policies and procedures, the responsibilities of the said organizational units and bodies within the Bank in the credit granting process, as well as in the process of monitoring and managing the granted credits and managing the credit risk arising from those activities.

To undertake and manage the credit risk, the Bank has put in place an appropriate credit-granting process and credit risk management process. Accordingly, the Bank has developed and adopted credit policy for each division involved in credit-granting. Eurobank a.d.'s every credit policy (hereinafter: the Credit Policy) defines the basic concepts, instructions and rules to ensure that the process of approval, disbursement, monitoring and collection of loans and other types of exposures are managed properly. To implement a relevant Credit Policy, the Bank has also adopted other necessary documents, decisions, rules, procedures etc.

The Bank manages the credit risk at the level of the entire credit portfolio, as well as at the level of individual clients and transactions.

At the level of the entire portfolio, the Bank manages the credit risk by implementing the following activities:

- ✓ analyzing the structure and quality of the Bank's entire credit portfolio by applying different criteria (by analyzing the currency structure and structure of the business sector, the risk of non-performance and adequacy of the provisions, as well as by analyzing the collaterals and their potential deterioration);
- ✓ monitoring different exposure limits (analyzing the limits toward large exposures and to troubled assets);
- ✓ monitoring and individual exposures to credit risk where early warning signs have been identified, as well as those where issues with collection have been identified;
- ✓ analyzing the portfolio sensitivity due to deterioration of credit and change in value of the collateral;
- ✓ analyzing the efficiency of the collection from the collaterals.

Credit risk identification is performed in the phase of initial contact with the client, in the phase of client file formation and during the duration of the Bank's investment. Individual placements are subject to rigorous estimation. Manner of approval and monitoring of placements, collateral that the Bank accepts, as well as the assessment of the riskiness of each of the placements is precisely prescribed by the Bank's Credit Policies, as well as the documents constituting the credit risk management framework (Credit Risk Management Policy, methodologies). Within the framework of the Credit Risk Management Policy, the Bank defined three levels of deterioration in the borrower's creditworthiness: early warning, financial difficulties, and default, which identification is based on a set of defined indicators, the process of monitoring these indicators and the process of further action in case of occurrence of any of these indicators.

The Bank identifies as non-performing exposures (NPE) those exposures with respect to which the client is more than 90 days past due or the Bank has identified any other indication of unlikeliness to pay. Detailed criteria are defined in the Bank's Credit Risk Management Policy.

The acceptable level of non-performing receivables (NPE) and highest acceptable level of non-performing exposure (NPE) that the Bank assumes in order to accomplish its strategies goals are defined in Risk Appetite Policy and Credit Risk Management Policy. Accordingly, the Bank defined a 3 years target for NPE Ratio in Business Policy and Strategy.

Within the Credit Risk Management Policy, the Bank also defined the concept of forbearance, in accordance with the NBS Decision on Risk Management by Banks.

The basic rules which the Bank applies when assuming and managing credit risk at the level of individual clients and transactions include:

- ✓ a detailed understanding of the economic background for the transaction;
- ✓ an assessment of the client's credit capacity based on an analysis of the client's financial situation, his capacity to repay the loan, as well as of the loan repayment schedule and source of the repayment;
- ✓ an analysis of the alignment of the foreign exchange position;
- ✓ an analysis of the business sector in which the borrower operates, the borrower's position in the market, the borrower's specific characteristics and other relevant indicators;
- ✓ an analysis of the type and quality of collaterals;
- ✓ an analysis of the business relationship that has been established with the client;
- ✓ monitoring whether the loan is used for the intended purpose and of the sources of the loan repayment;
- ✓ control of the client's operation during the loan repayment period.

The Bank systematically works to optimize existing collection processes and procedures in order to reduce the cost of collection and enable increased control over them while simultaneously increasing the collection and yield rate. In order to ensure focused and transparent management of problematic placements of the Bank, adequate responsibility for their execution and independence from other business units responsible for risk taking, the Board of Directors (BoD) of the Bank established the Troubled Asset Sector (TAS) and adopted the Troubled Asset Sector Policy.

The Bank measures the credit risk at the level of individual clients and transactions, by assessing the client's financial situation, i.e. his creditworthiness, where the type of the indicators used depends on the type of the client and the specific nature of the client's business and legal status. Beside assessing the client's financial situation, i.e. the client's creditworthiness measured through quantitative indicators, the Bank uses a number of qualitative indicators, such as the business sector in which the client operates, the client's credit history, the quality of management, relationship with the client to date, etc.

The Bank assesses the credit risk at the level of the entire portfolio by calculating the special reserve for estimated losses, the required reserve for estimated losses, the impairment allowance for balance sheet assets and provisions for off-balance sheet items as well as by establishing the capital requirement for credit risk coverage in accordance with internally defined methodology. To investigate the impact of negative developments arising from credit risk exposure, the Bank also conducts stress tests for credit risk, where the Bank includes the impact of potential events or future changes in economic conditions, as well as stress scenarios related to development of main credit risk parameters, the delinquency rate and the loss caused by the failure to meet the obligations toward the Bank.

For the measurement of impairment on exposures held at amortized cost in accordance with the IFRS 9, the Bank uses expected credit loss (ECL) model. A loss allowance is recognized for expected credit losses and it is measured at each reporting date.

The main elements which constitute the framework of IFRS 9 implementation in the Bank are:

- ✓ Definition of default,
- ✓ Stage allocation criteria,
- ✓ Differentiation between collective and individual assessment,
- ✓ Expected Credit Loss (ECL) measurement.

Due to decrease of NPL ratio below 10% and in accordance with NBS Classification Decision reserves for estimated losses are not any more deductible item from CET1 what resulted with increase of CET1.

Considering that the NPL ratio of the Bank is below 10%, required reserves for estimated losses are not deducted from the regulatory capital, in accordance with the Decision on classification of balance sheet assets and off-balance items of the bank.

The Bank applies the standardized approach for the calculation of capital requirement for the needs of quantification of necessary capital for coverage of losses arising from exposure to credit risk, pursuant to the Decision on Capital Adequacy of the National Bank of Serbia.

By the Internal Capital Adequacy Assessment Process Policy (ICAAP Policy), the Bank has defined the manner of determining the adequacy of its capital compared to the risk profile, respectively the risk degree it is exposed to in its operations. The Bank bases this process on the internally accepted methodology which reflects the specificity of the Bank, i.e. its size, organization and volume of operations, as well as the quantity and quality of available competencies and data, and estimates the Bank's capital adequacy primarily from the business perspective of the Bank.

The bank determines the internal capital requirement for credit risk as well as the techniques for stress testing of credit risk, in accordance with the Methodology for determination of internal capital requirements and stress testing for credit risk. The Bank carries out stress testing of credit risk and its subcategories, which includes a scenario related to the development of the main parameters of credit risk, i.e. default rates and default losses arising from non-settlement of liabilities towards the Bank.

In its Risk Appetite Policy, the Bank has stipulated in detail the limits the Bank adheres to in the context of credit risk management, as well as the method of calculation, the reference values, and also the calculation-related responsibilities and calculation frequency. In its Credit Risk Management Policy, the Bank has additionally set internal limits, at the same or, as a rule, at a lower threshold than the one defined by regulatory limitations (which is meant to ensure that regulatory limits are not exceeded) for indicators which are internally deemed to be important at the level which the management has assessed as adequate. Furthermore, to ensure timely reaction by the management, early warning limits have also been put in place. The Bank reviews and if necessary updates the defined limits annually. In case the limits have been breached, the Executive Board and the Board of Directors are notified and actions are taken in line with the measures/activities defined in the Bank's internal documents.

The Bank ensures protection from credit risk exposure through:

- ✓ selection of credit applications
- ✓ applications of limits
- ✓ diversification of granted credits
- ✓ application of adequate collaterals.

To ensure protection from exposure and to manage the credit risk, the Bank regularly conducts the analysis of exposures to different types of products, different types of clients, exposure to a single client or a group of clients, levels of decision making, exposure to economic sectors etc. By doing so, the Bank monitors and reviews the set limits and in case of large risk exposures or if the existing limits are being approached, the Bank undertakes the measures to reduce the exposure or to obtain additional collaterals. Bearing in mind that the collaterals have a significant role in risk mitigation and protection against credit risk exposure, the Bank conducts checks of collaterals in the process of their recognition and valuation.

Within credit risk and in accordance with the Methodology for assessment of risk materiality, the Bank is exposed to the following materially significant sub-categories of credit risk: foreign-currency induced credit risk, concentration risk, residual risk and interest-rate induced credit risk. Accordingly, the Bank controls and manages the aforementioned risks in parallel with managing the credit risk.

The objectives of the management of credit and foreign-currency induced credit risk, residual risk, interest-rate induced credit risk and concentration risk are in correlation with the objectives for credit risk management and aimed at ensuring adequate diversification of portfolios of placement and security instruments and prevention of their concentration.

Foreign-currency induced credit risk is the risk of financial loss due to an obligor's inability to fulfil their obligations to the Bank caused by adverse movements in foreign exchange rates.

The Bank manages the foreign-currency induced credit risk at the level of single borrowers and at the level of the entire credit portfolio. The Bank has set forth the main rules of financing and principles of credit-granting, credit monitoring and credit risk management, including credit risk in foreign-exchange transactions in its internal Credit Policies and in the Methodology for application of classification criteria of bank receivables in line with the Decision of the National Bank of Serbia on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet items.

Interest-rate induced credit risk is the risk of financial loss due to an obligor's inability to fulfil their obligations to the Bank caused by adverse movements in interest rates. In the current global low interest-rate environment, interest rate-induced credit risk also poses a significant concern.

The Bank performs the assessment of the internal capital requirement for interest-rate induced credit risk by varying PD's to account for possible impact of adverse movements in interest rates.

Concentration risk is the risk of large or correlated financial losses due to the Bank's overexposure to a single or correlated source of risk. This may be overexposure to a single entity, a group of related entities, or a group of entities or exposures subject to correlated adverse events (e.g. borrower segment, industry, product type, security type, and geographic region of the borrower or the security). Concentration risk may be present with respect to different types of risk, including credit, market and liquidity risk.

To manage properly the concentration risk, the Bank applies rules and principles defined in the Decision on Risk Management as well as the provisions set forth in the internal credit policies, the Policy and Guidelines for investment risk and concentration risk management.

To asses and manage concentration risk, the Bank applies the established limits defined by the Decision on Risk management, as well as limits for exposure to this type of risks defined by internal policies and guidelines, which enable diversification of the credit portfolio.

The Risk Management Department continuously monitors exposure to certain types of clients, industry sectors and types of collateral and reports on the utilization of the set limits to the competent management bodies (Executive Board, Risk Committee, Audit Committee and the Board of Directors).

Additionally, the Bank analyzes the concentration risk at the level of the entire portfolio when assessing the internal capital requirements for this risk, within ICAAP.

Residual risk is the risk of financial loss due to the fact that credit risk mitigation techniques may prove less effective than expected. Residual risks include market, liquidity, legal and documentation risks with respect to credit risk mitigation techniques. Taking into consideration the importance of collaterals and their efficiency in credit risk mitigation, the Bank has within its credit policies and procedures clearly defined the acceptable categories of collaterals, the criteria for their acceptance, monitoring and insurance in case of negative developments.

The Bank includes the impact of this risk in the calculation of internal capital requirement for credit risk, in line with the Methodology for the calculation of internal capital requirements and stress testing for credit risk.

Country risk

Country risk is the risk of financial loss due to the Bank's inability to collect receivables from a counterparty for reasons arising from political, economic or social circumstances in their country of origin. Subcategories of country risk include:

- ✓ Political and economic risk arises from restrictions established by regulations of government and other authorities of the borrower's country, as well as general and systemic circumstances in the country;
- ✓ Transfer risk arises from the Bank's inability to collect receivables in a currency that is not the official currency of the borrower's country, due to the borrower's inability to obtain the necessary foreign currency to meet its debt obligations or restrictions on payment of obligations to creditors from other countries in a specific currency, imposed by regulations of government and other authorities in the borrower's country of origin.

For all countries except Serbia, a separate limit per country is approved, based on the credit rating of the country, the size of its economy and the relevance of the specific country in the Bank's operations.

Country exposure limits cover:

- Securities issued by sovereign or corporate entities domiciled in the specific country;
- Any exposure to financial institutions domiciled in the specific country;
- Cross-border loans and guaranties.

Market risk

Market risk is the risk of negative effects on the Bank financial result due to changes in the value of balance sheet positions caused by the change of market prices. In terms of market risk, the Bank is exposed to the risk of changing the prices of debt and equity securities and foreign exchange risk. The existing market risk related portfolio of the Bank consists of debt securities (bonds and T-bills of the Republic of Serbia), derivatives and to the small extent – shares of the companies that are listed on the Belgrade Stock Exchange (BSE).

The price risk of debt securities represents the risk of changes in the price of these securities due to changes in interest rates and includes the specific and general price risk. The general risk of the prices of debt securities is a risk of change in prices of debt financial instruments caused by changes in the general level of interest rates. The specific risk of the prices of debt securities represents the risk of change in prices of debt financial instruments caused by a change in the factors related to the issuer of the securities.

The price risk of equity securities represents the risk of change in the price of these securities and may be general or specific. The general price risk of equity securities represents the risk of change in the price of the owner's financial instruments caused by changes in the general level of prices of such securities. The specific price risk of equity securities is the risk of change in the price of the owner's financial instruments caused by the change of factors relating to the issuer of the securities.

The assessment of the market risk exposure includes the following in particular:

- all Bank activities sensitive to the change of market conditions;
- all open positions arising from Bank activities;
- exposure concentration in the trading book;
- liquidity of all financial markets the bank trades at;
- volatility of the market price of Bank's trading financial instruments;
- complex financial instruments and financial derivatives;
- embedded options.

Goals of market risk control and monitoring are as follows:

- protecting the Bank from unforeseen market losses and contributing to the income stability through independent identification, assessment and understanding of market risks in operations;
- developing transparent, objective and consistent information on market risks as the basis of adequate decision making;
- implementing market risk control standards determined by the National Bank of Serbia and Eurobank Group.

Interest rate risk in the Banking Book

Interest rate risk in the Banking Book is the risk of negative effects occurrence on Bank financial results and capital due to changes in the value of its assets and liabilities or due to the opportunity cost caused by the change in interest rates on the market.

Main sources of interest rate risk are as follows:

- Risk of maturity mismatch or re-pricing period mismatch of Asset and Liability (Repricing risk);
- Yield curve risk the Bank is exposed to due to the change of short- and long-term interest rates, i.e. due to the change in the shape of the yield curve (Yield curve risk);
- Basis risk the Bank is exposed to due to different referential interest rates in Asset and Liability, with the similar characteristics in terms of maturity or re-pricing (Basis risk);
- Optionality risk arising from the client's decision to use his contractual right to repay the loan early or to withdraw the deposit, as a result of an interest rate fluctuation (Optionality risk).

Interest rate risk management is directed at ensuring adequate profitability and safety of Bank business operations within the established risk appetite by maintaining interest rate exposure within the defined limits and specific thresholds.

Main goals of interest rate risk management are as follows:

- optimization of assets and liabilities position sensitive to interest rate movements;
- timely assessment of negative effects of interest rate changes;
- limiting potential losses from change of interest rates.

With regards to the assessment of the interest rate risk exposure and its effect on financial result, the Bank analyses two perspectives:

- The perspective of the income sheet where the analysis focuses on the impact of interest rate changes to calculated and declared financial result, through the change in net interest income (short term perspective);
- The perspective of the economic value, analyzing the impact of interest rate change on economic value of Bank assets, liabilities and off-balance sheet positions (long term perspective).

In order to measure and assess the interest rate risk, the Bank analyses the following:

- value of on balance sheet and off-balance sheet positions sensitive to interest rate changes;
- interest rate volatility;
- time period over which there is an exposure to interest rate risk;
- application of stress scenarios.

The Bank manages interest rate risk by applying its internal policies through which it limits and monitors interest rate risks, as well as by implementing activities and techniques which mitigate the risk of net assets decrease due to adverse movements of interest rates. In this respect, the Bank applies the following models for interest rate risk management:

- gap analysis;
- measurement of Bank income sensitivity to change in interest rates;
- scenario analysis.

Interest rate risk management represents a set of measures by which Bank minimizes interest rate risk as follows:

- ensuring that assets and liabilities items sensitive to interest rate movements are as balanced as possible;
- monitoring defined internal limits which are regularly re-examined and reviewed, if necessary.

In order to decrease and hedge this risk, the Bank may carry out the following activities:

- undertake measures to change the date of balance sheet assets interest rate date;
- use financial derivatives to hedge the interest rate risk;
- define new products to mitigate the undertaken interest rate risk.

Currency risk

Currency Risk represents the risk of the possibility of occurrence of negative effects on the Bank financial results and capital due to foreign currency exchange rate changes, and the Bank is exposed to this risk on the basis of the items in the banking book and the trading book.

Exposure to this risk may lead to a potential loss on open FX position that is not covered and secured (assets, liabilities, capital and FX obligations) if (from the viewpoint of the reporting currency) the currency of the FX position depreciates, or potential income if the foreign currency appreciates with regards to the reporting currency.

FX assets are defined as assets in foreign currency, RSD assets with currency clause, gold and precious metals, reduced by the amount of provisions for these assets.

FX liabilities are defined as liabilities in foreign currency, RSD liabilities with currency clause, gold and precious metals.

Currency risk management is directed at maintaining the exposure to this type of risk within the defined limits and achieving the planned profit.

Main goals of currency risk management are as follows:

- ensuring the optimal currency structure of assets and liabilities in Bank balance sheet;
- timely assessment of negative effects on financial result caused by adverse currency movements;
- limiting potential losses from currency movements.

Main sources of currency risk include:

- direct risk arising as the consequence of currency exchange rate movements;
- volatility risk representing the risk of the exchange rate volatility.

The Bank may be exposed to currency risk from assets and liabilities currency structure mismatch arising from the change in value of inter-currency rates and local currency leading to change in the value of future income and expense. Also, the Bank may be exposed to this risk due to transaction denominated in foreign currency.

In order to measure and assess currency risk, the Bank applies internally defined methodologies through which it examines the degree of currency risk exposure by calculating FX position and currency risk indicators, determining internal capital requirement, performing gap analysis and by stress testing.

The Bank maintains the currency risk exposure by regular monitoring and control of the open FX position in relation to:

- internally established limits in accordance with the risk appetite (the prescribed limit for open FX position stands at EUR 20 million maximum);
- regulatory ratio (open FX position is limited to 20% of the Bank regulatory capital).

If the currency risk increases, the Bank shall use risk mitigation techniques which include (but are not limited to):

- undertaking measures to change the currency structure of assets and liabilities;
- closing of open position at the interbank market;
- using financial derivatives to hedge currency risk;

Operational risk

Operational risk is the risk of the possible occurrence of negative effects on Bank financial results and capital due to omissions (deliberate or accidental) of the employees, inadequate internal procedures and processes, inadequate management of IT and other Bank systems, as well as due to the occurrence of unforeseeable external events. Operational risk includes legal risk representing 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, labor relations, etc.).

Bank strategy is to always maintain its operational risk exposure at the lowest possible level.

Main goals of operational risk management are as follows:

- Preparation and implementation of Operational risk management policy and operational risk methodologies (including risk and control self-assessment);
- Development and/or acquiring of appropriate operational risk management infrastructure and technology
- Promoting the use of key risk indicators where suitable;
- Establishing the minimum necessary data and information for reporting operational risk events by organizational units;
- Periodical submission of reports that reflect the operational risk profile of the Bank, to the Executive Board, Operational Risk Committee, Risk Committee and to Audit Committee;
- Supervision and support to operational risk functions in all segments of the Bank's operations, including anti-fraud functions.

Fluid form of operational risks, which accounts for their presence in all segments of business operations, significantly affects modeling of the management process which is based on proactive approach and management at all decision-making levels of the Bank.

Operational risk management process has a functionally connected, phased structure. Main phases of the process are as follows:

- risk identification,
- assessment of exposure to operational risk,
- introduction of the appropriate control mechanisms for managing and mitigating operational risk exposure of the Bank,
- analysis of the implemented control mechanisms and their efficiency,
- analysis of residual risks after the introduction of a control mechanism and the analysis of its efficiency.

Strategic goals of the Bank operational risk management are as follows:

- Maintaining the safety of the Bank and its resources at an acceptable level;
- Undertaking corrective activities related to operational risk events which significantly impact Bank performance and may lead to significant financial losses;
- Complying with the requirement of the local bank supervision and the competent international institutions, including Basel Committee for Bank Supervision.

When managing operational risk, the Bank identifies the existing operational risk sources, as well as potential risk sources that may arise from the introduction of new products, services, new processes and systems and also from outsourcing of the Bank activities.

When identifying risks, the sources of operational risk are determined and are monitored per business lines and other criteria prescribed in the internal methodology by means of which the Bank creates an internal operational risks database.

Apart from collecting and managing operational risk events (historical data), the Bank applies the following methods:

- creating key risk indicators (KRI) – indicators based on historical data which point to the operational risk exposure (at present),
- risks and controls self-assessment (RCSA), the aim of which is to identify, assess and ultimately mitigate operational risk (short term aspect of risk assessment),
- scenario analysis, through which internal capital requirement is determined and operational risk stress testing is performed (mid-term to long-term assessment).

Other than that, the Bank established standards of information systems operations (including also the alternative channels services), developed systems of their protection and established process of business continuity management – plan of operations in crisis situations, as well as disaster recovery plan.

In order to mitigate and hedge operational risk, the Bank uses the following measures:

- covering all Bank activities by appropriate internal regulatory documents (policies, guidelines, procedures, working instructions and the like) and their regular reviewing;
- controlling their implementation;
- providing crime and civil liability insurance policy (BBB), directors & officers liability insurance policy as well as cyber insurance policy;
- providing property insurance policy;
- ensuring additional funds and capital where necessary.

8. EXPOSURE TO SIGNIFICANT FINANCIAL RISKS

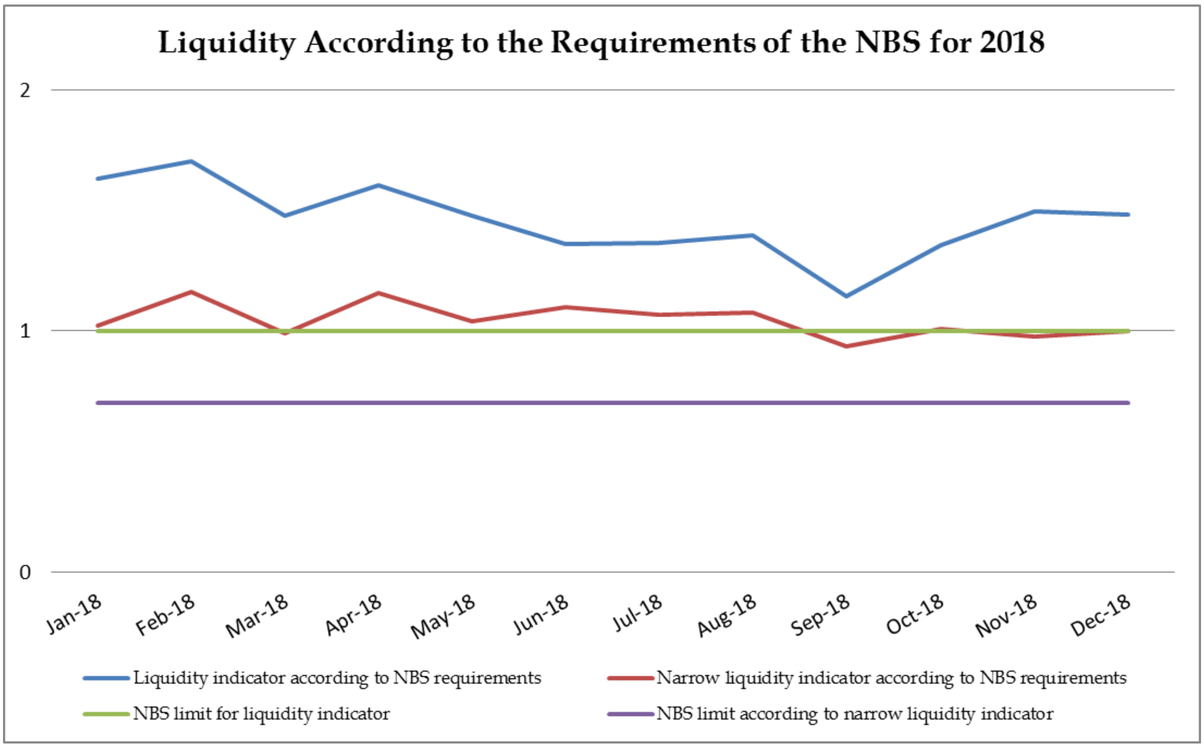
Liquidity risk

During 2018, the Bank continued to maintain a high level of liquidity which can be illustrated through the analysis of the prescribed regulatory liquidity ratio and narrow liquidity ratio.

The liquidity ratio is the ratio of the sum of first and second order liquid assets (cash, funds at the accounts with other banks, deposits with the Central Bank, receivables in realization process, irrevocable credit lined approved to the bank, financial instruments quoted on the stock market and other bank receivables with maturity up to 1 month).

The narrow liquidity ratio is the ratio of level 1 liquid receivables of a bank and the sum of liabilities payable on demand or with no agreed maturity and liabilities falling due within a month from the date of liquidity ratio calculation.

During the whole period, the two ratios were above the borderline values prescribed by NBS as illustrated in the graph bellow:



In accordance with the regulatory limits, the Bank maintained liquidity ratios above the prescribed level, which stands at above 1 for liquidity ratio, and above 0.7 for the narrow liquidity ratio.

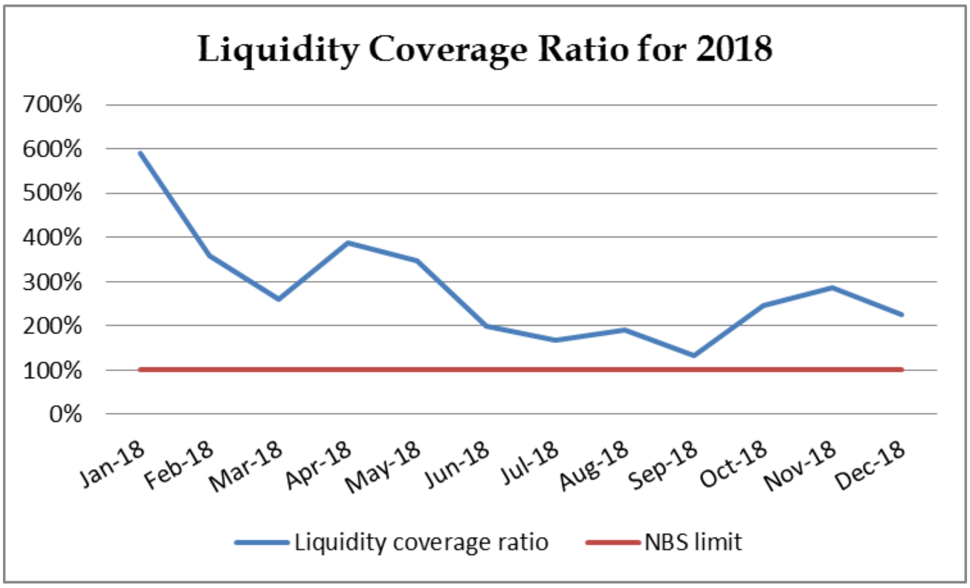
The Bank liquidity ratio in 2018 ranged from 1.08 to 1.96, whereas the narrow liquidity ratio ranged from 0.80 to 1.48.

As at 31 December 2018, the Bank calculated the following values:

- Liquidity ratio: 1.48;
- Narrow liquidity ratio: 1.00.

In addition to the aforementioned two ratios, the bank has calculated another liquidity ratio, Liquidity Coverage Ratio, which is an integral part of the regulatory requirements. The liquidity coverage ratio is the ratio of liquidity buffer and net liquidity outflows over a 30 day stress period.

Liquidity Coverage Ratio ranged all the time above the limit value prescribed by the NBS of 100%, which is illustrated in the graph bellow:



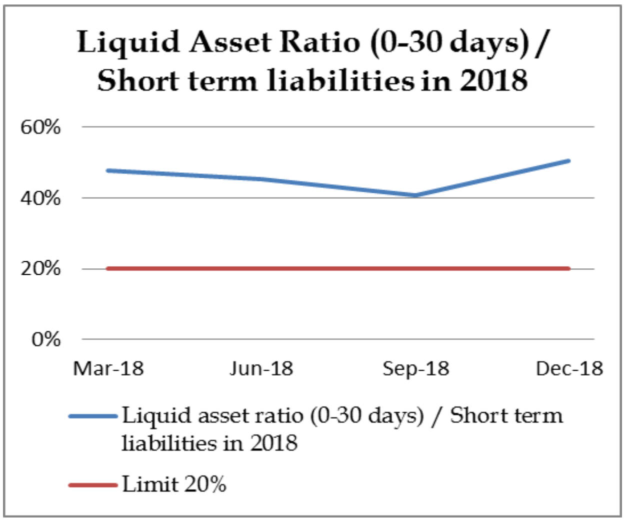
Liquidity coverage ratio in 2018 ranged from 132% to 531%. As at 31 December 2018, it amounted to 225%.

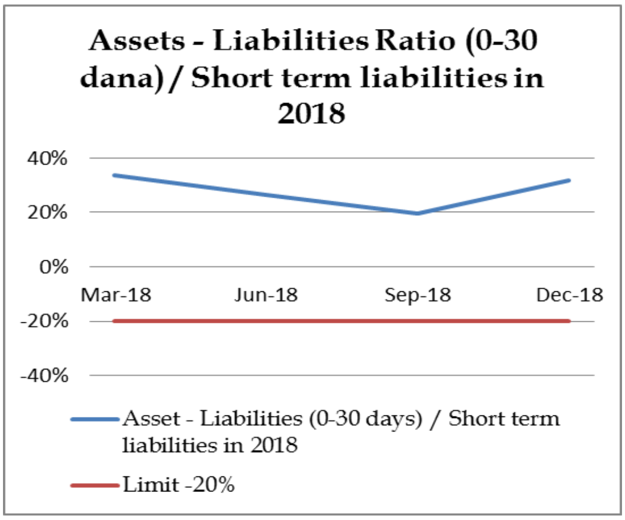
For the purpose of monitoring the risk exposure towards cash inflow and outflow gap, the Bank balance positions are distributed into 7 time segments based on which gap is determined, and in turn, based on this gap the Bank determined the internal liquidity ratios:

- Liquid assets (0 - 30 days)/short term liabilities,
- Gap (0 - 30 days)/short term liabilities.

During 2018, the Bank maintained a high level of liquidity as per internally determined ratios which were above the prescribed limits which testifies to the fact that the Bank settled all its obligations without delays and that the clients could, at any given moment, dispose of their funds without limitations.

The Bank's highly liquid position is illustrated in the following graphs:





Internally prescribed limit for the ratio of liquid assets up to 30 days and short term liabilities stands at 20%. During 2018, realized ratio ranged between 40.63% and 50.30%.

For the indicator which refers to the overall gap of assets and liabilities up to 30 days and short term liabilities, the internally prescribed borderline value is -20%. Realized ratio ranged from 19.50% to 33.60%.

Considering the conditions in the local banking market, as well as the macroeconomic indicators in Serbia and globally, in 2018, the Bank demonstrated a highly efficient management of liquidity risk. A solid diversification of funding sources was achieved, whereas further optimization of the funding sources remains one of goals in 2019.

Credit risk

In accordance with the Decision on the capital adequacy, the Bank applies standardized approach for measurement of credit risk within which all exposures are assigned to the appropriate class for which different risk weights are applied and capital requirements for credit risk are calculated. For the purpose of internal capital adequacy assessment, the Bank applies the adjusted approach, correcting the standardized approach in line with internal risk appetite.

Comparative review of important classes of exposure and capital requirements is provided in the following table:

Exposure classes	**Net exposure**		**Capital requirements**	
(in 000 RSD)	**31.12.2018.**	**31.12.2017.**	**31.12.2018.**	**31.12.2017.**
Republic of Serbia and Central Bank of Serbia	46,244,617	33,911,991	-	-
Banks	11,900,665	10,423,275	216,443	150,862
Retail exposures	75,532,309	65,106,285	4,017,437	3,462,495
Corporative	53,282,415	44,180,376	3,605,749	2,861,094
Multilateral Development Banks	28,898,357	337,374	-	-
High Risk exposures	1,505,489	-	120,129	-
Exposures secured by mortgages on real estate	6,828,262	8,915,214	190,444	268,954
Exposures in default status	8,895,510	8,758,263	914,544	695,241
Other exposures	224,109,660	212,149,881	353,623	363,053
Total	**457,197,284**	**383,782,659**	**9,418,369**	**7,801,699**

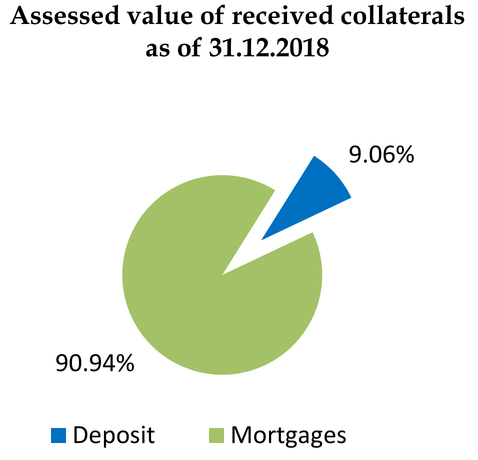
For the purposes of monitoring the quality of the loan portfolio, all exposures, according to the criteria of the National Bank of Serbia are classified into five categories of risk. Quality review of the total portfolio is given in the following table:

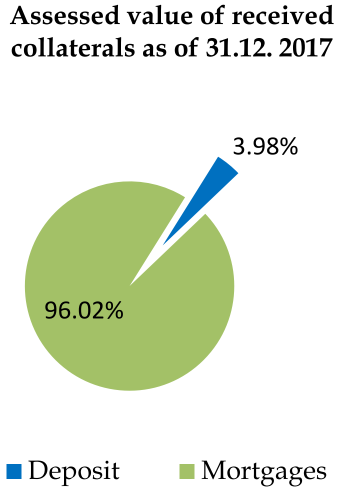
(in 000 RSD)

Period	**31.12. 2018.**			**31.12.2017.**
Category	**Assets**	**Off-balance items**	**Total**	**Total**
A	45,041,594	4,440,399	49,481,993	42,973,162
B	58,604,641	16,547,878	75,152,519	62,061,708
V	12,633,464	3,899,279	16,532,743	16,874,224
G	3,261,646	121,998	3,383,644	3,952,058
D	13,073,822	5,106,284	18,180,106	25,620,892
Total	**132,615,167**	**30,115,838**	**162,731,005**	**151,482,044**

In the total Bank's portfolio as at 31.12.2018, the largest amount of exposure refers to the categories of acceptable levels of risk (A, B and V category). Compared to the previous year, in 2017 the participation of problematic categories G and D decreased from 19.52% to 13.25%. On the other side, the participation of acceptable (i.e. performing) categories increased from 80.48% to 86.75%.

For the purpose of mitigating credit risk exposure, the Bank obtains credit risk mitigation instruments (collaterals). Overview of the received collaterals is given in the following graphic:





In order to minimize the exposure to credit risk, the Bank continuously conducts the following activities:

- Consistent application of the methodology and procedures relating to credit risk assessment;
- Adequate diversification of the credit portfolio in order to disperse credit risk and minimize potential losses;
- Identifying early warning signals that may indicate a deterioration in the clients' creditworthiness, in order to timely take appropriate actions to protect the Bank's lending portfolio, and therefore also the capital;
- Monitoring of individual exposures and clients;
- Monitoring the total lending portfolio, in order to maintain the quality of the loan portfolio, timely detect and monitor non-performing loans, as well as the formation of reserves that contribute to the coverage of credit losses.

Market risk

The Bank applies standardized approach for the calculation of capital requirements for market risk in accordance with NBS requirements in order to determine capital adequacy.

Capital requirement for price risk from open positions of trading portfolio of the debt and proprietary securities, as well as derivatives, shares, interest rates and foreign currency exchange rate, are calculated as the sum of the following:

- general risk, risk of price change of the relevant financial instrument due to general change of the interest rate or price level at the stock market, calculated on the basis of the standardized approach, and
- specific risk, i.e. the risk of price change of the relevant financial instrument due to factors related to the issuer, calculated on the basis of the standardized approach.

Capital requirement for price risk is calculated as per trading book elements, by means of the maturity date method, also considering long or short positions of debt securities as well as other short positions of swap and forward contracts recorded in the trading book in currencies as per transactions performed, as well as per the remaining period until due date.

On the basis of the trading book position in the amount of RSD 19.94 bn as at 31 December 2018, the Bank calculated capital requirements for:

- Price risk from proprietary securities in the amount of RSD 34 thousand, and
- Price risk from debt securities in the amount of RSD 8,522 thousand.

Bank exposure arising from investment into entities outside of the financial sector and into Bank PPE, as of 31 December 2018, were within regulatory requirement of 60% of the regulatory capital and amounted to 8.70%.

Interest rate risk

The Bank has internal mechanism developed for managing the interest rate risk in the banking book in accordance with the Risk Management Policy and Strategy and with the aim of defining in detail the process of identification, measurement, mitigation, and reporting on the interest rate risk.

Once a month, the Bank determines the total interest rate gap through which it observes maturity gap of interest-sensitive assets and liabilities as a whole, but also individually per significant currencies.

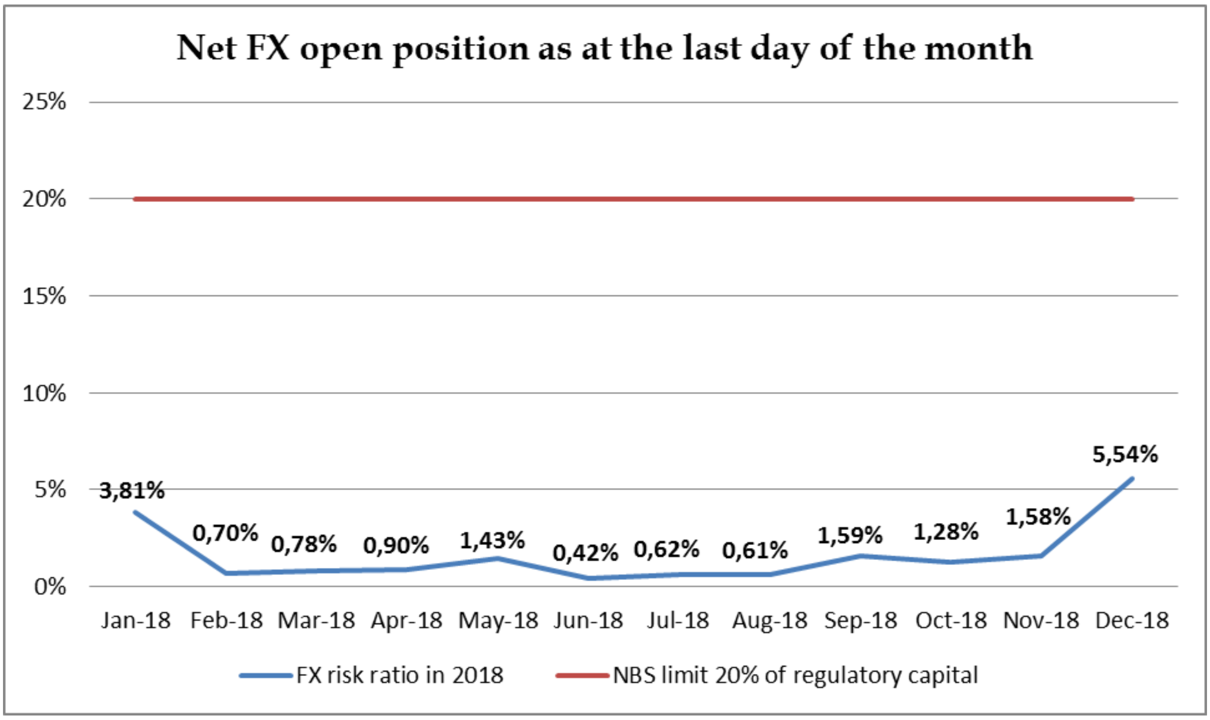
The impact of the interest rate on capital is measured by calculating the sensitivity of the economic value of equity to the change of interest rates.

During 2018, the interest rate risk indicator, as the measure of the impact on the Bank capital, remained below the defined limit of 10% of regulatory capital. Exposure to subcategories of interest rate risk, as of 31 December 2018 is as follows:

- Base risk 0.49%;
- Repricing risk 3.34%;
- Yield curve risk 1.08%;
- Optionality risk 7.26%.

Currency risk

Bank's strategy in terms of the currency risk is aligned with the strategic goals of the overall business operations and is shown through compliance with both the regulatory limit of the National Bank of Serbia standing at 20% of the Bank's capital, and the internally prescribed limit for net open FX position amounting to EUR 20 million.



During 2018, the value of the FX risk ratio was well below the borderline value and as at December 31st it stood at 5.54%, whereas at the same date it ranged from 0.11% to 6.43%. The exposure in EUR is dominant in the currency exposure structure. The largest average exposure was in EUR, with the average limit utilization of 13.3%, (against the limit of EUR 20 million).

Open FX position as of 31 December 2018 is given in the following table:

(000 EUR)

	Currency	Exposure	Internal limit utilization %
FX open position	EUR	16,837	84.2%
	CHF	-699	34.9%
	USD	22	0.4%
	GBP	27	2.7%
	Other currencies	1,318	64.9%

Gaps per currencies are continually monitored and, when necessary, appropriate measures are undertaken to mitigate severe oscillations and to control the currency risk exposure.

As at 31 December 2018, assets and liabilities in foreign currencies, both in total and individually per foreign currencies, are matched to the extent acceptable by the regulator and also by the Bank's management.

(000 EUR)	EUR	
	Total	EUR- Indexed
Long position	754,961	431,632
Short position	738,124	598
Gap	16,837	431,034

(000 EUR)	USD	
	Total	EUR- Indexed
Long position	13,128	-
Short position	13,106	-
Gap	22	-

(000 EUR)	CHF	
	Total	EUR- Indexed
Long position	102,393	97,116
Short position	103,092	649
Gap	(699)	96,467

(000 EUR)	Other currencies	
	Total	EUR- Indexed
Long position	3,629	-
Short position	2,284	-
Gap	1,345	-

The Bank continually conducts currency risk management in order to maintain the exposure to the acceptable level.

Currency risk internal controls system is integrated into all bank business activities, as well as the independent control of the adequacy and efficiency assessment of the currency risk management system.

As a part of the currency risk management, the Bank uses derivatives and other instruments and measures with regards to assets and sources of assets in order to decrease and mitigate the exposure to the said risk.

The Bank established a reporting system which includes internal and external reporting. In accordance with the said reporting system the Risk Management Division reports in a timely manner to the National Bank of Serbia and the Bank management, as well as to the competent boards and committees, and organizational units.

Internal reporting system includes the currency risk exposure assessment, compliance with the external and internal limits as well as the stress testing results.

Operational risk

Operational risk is encompassed by the regulatory capital requirement in line with the Decision on capital adequacy. Accordingly, the Bank decided to use the basic indicator approach (BIA) to calculating minimum capital requirements for operational risk.

In addition, the Bank monitors the regulatory capital adequacy through the establishment of an internal capital requirement, as well as through stress testing for operational risk using an internally developed hybrid measurement approach (HMA).

The amount of internal capital requirements for operational risk in 2018, calculated using HMA, necessary to cover the most probable exposures to operational risk was estimated at RSD 659.52 million and shows no need for increase of regulatory capital requirement for operational risk.

9. INFORMATION ON THE PURCHASE OF OWN SHARES

During 2018 the Bank carried out annulment of 5 own preference shares repurchased during the year 2017.

10. EVENTS AFTER THE REPORTING PERIOD

As of 25th April 2019, the Parliament of Republic of Serbia has adopted the Law on the Conversion of Mortgage Loans Indexed in Swiss Francs. Pursuant to the aforementioned Law, the banks are obligated to offer the conversion of the remaining debt indexed in CHF into debt indexed in EUR within 30 days of the Law coming into effect. The conversion also envisages a 38% haircut of the converted debt amount and the application of interest rate as per the bank offer valid on 31 March 2019 for EUR indexed loans. The debtors have 30 days to inform the bank if they accept the offer and to sign the conversion contract. If the offer is not accepted the existing contract remains valid.

The Republic of Serbia has undertaken to reimburse 15% of the debt amount obtained through conversion and the bank is also entitled to tax credit of 2% of the amount of the remaining debt. Regarding the tax and accounting treatment of the debt reduction, the bank will record it in its business books as tax recognized expenditure pursuant to the corporate income tax law.

As of 31 March 2019, the Bank had CHF mortgage loans in amount of RSD 11.2 billion. The Bank's clients have positively responded on the Law and about 91% of the total CHF mortgage loans exposure has been converted in EUR. The Bank's best estimation of the loss coming from the conversion will be around RSD 1.6 billion. The negative effect on the financial result of the Bank, is calculated as expected total amount of converted debt multiplied with 23% (derecognition loss) decreased by: net release of provisions, lower corporate income tax due to losses and positive impact of tax credit.

Belgrade, 24 July 2019

On behalf of the Bank:

Eurobank a.d. Beograd

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer